

R.B. 98-09
November 1998

FOOD INDUSTRY
MANAGEMENT

CORNELL
UNIVERSITY

Structural and Marketing Changes in U.S. Retailing, 1987–1997

Foundation for the Future

Department of Agricultural, Resource, and Managerial Economics
College of Agriculture and Life Sciences
Cornell University, Ithaca, NY 14853

Teaching • Research • Executive Education

It is the Policy of Cornell University actively to support equality of educational and employment opportunity. No person shall be denied admission to any educational program or activity or be denied employment on the basis of any legally prohibited discrimination involving, but not limited to, such factors as race, color, creed, religion, national or ethnic origin, sex, age or handicap. The University is committed to the maintenance of affirmative action programs which will assure the continuation of such equality of opportunity.

Structural and Marketing Changes in U.S. Retailing, 1987–1997

Foundation for the Future

Robert Vance Weaver

**Food Industry Management Program
Cornell University**

**This study and report were
supported by a grant from
Procter & Gamble**

\$25 per copy

Copies may be purchased from:

**Food Industry Management Program
113 Warren Hall
Cornell University
Ithaca, NY 14853-7801
Phone (607) 255-1622
Fax (607) 255-4776**

Table of Contents

Executive Summary	i-iii
I. Introduction	1
A. Rationale	1
B. Defining Retailing Channels Under Study	2
C. Methodology	4
II. Grocery Store Format Analysis	6
A. Structural Changes in Grocery Stores	6
1. Number of Stores and Dollar Sales in Grocery	6
2. Average Sq. Ft. Selling Area & Sales/Sq. Ft.	8
3. Median Square Feet and Selling Area - New Stores	9
4. Percentage of Grocery Stores - New, Closed, Remodeled	10
5. Median Grocery Store Remodeling and Building Costs	11
6. Specific offerings in grocery stores	12
B. Structural Changes in Supermarket Store Formats	14
1. Number of Stores and Dollar Sales in Supermarkets	14
C. Structural Changes in Chain Supermarket Store Formats	15
1. Number of Stores and Dollar Sales in Chain Supermarkets	15
D. Structural Changes in Independent Supermarket Stores	16
1. Number of Stores and Dollar Sales in Ind. Supermarkets	16
E. Structural Changes in Wholesale Club Formats	18
1. Number of Stores and Dollar Sales in Wholesale Clubs	18
F. Summary Statistics for Grocery Industry	19
G. Food Marketing Executive Comments 1993-1997	22
H. Specific Marketing Focus	27
1. Identification of critical trends	27
a. HMR, meal solutions	27
b. Store within a store	28
c. Hiring outside personnel in food service	28
d. Consumer Direct receives attention	28
e. Fresh Foods gain prominence	29
f. Center of store- area of concern	30
g. Loyalty marketing programs	30
h. HBC, cosmetics, pharmacy grow	31
2. Descriptions in Grocery Retailing	32
a. Giant Food	32
b. Ukrop's	33
c. Eatzi's	33
d. Dorothy Lane Supermarkets	34
e. Stew Leonard's	35
I. Analysis and Discussion of Grocery Industry	37

III. Drug Store Analysis	41
A. Structural Changes in Drug Retailing	41
1. Number of chains, independent, total	41
2. Drug industry sales	42
3. Average drug store size	43
4. Average volume/store	43
5. Number of square feet in industry	44
6. Sales/square feet	45
7. Average volume and square feet per small chain drug store	45
8. Number of retail pharmacies by format type	47
B. Summary statistics for drug store retailing	48
C. Specific Marketing/Strategic Focus in Drug retailing	50
1. Identification of critical trends	50
a. Convenience for consumer	50
b. Convenience food and beverage on rise	50
c. Professional health care image/home health care	51
d. "Back to future" design	52
e. Wider aisles, lower profiles, etc.	53
f. Decreasing pharmacy margins, increase front end	53
g. Store-within-a store boutique	54
h. Home health care superstores	55
i. Others	55
2. Descriptions in Drug Retailing	56
a. Walgreens	56
b. Pharma Plus	57
c. Take Good Care	58
D. Analysis and Discussion of Drug Store	59
IV. Mass Retailer Format Analysis	63
A. Structural Changes in Discount Merchandisers	63
1. Average square feet in mass retail store	64
2. Average sale/square feet in discount store	64
3. Total sales in mass retailing outlets	65
B. Summary statistics in mass retailing	66
C. Specific Marketing and Strategic Focus	75
1. Identification of critical trends	75
a. Store design meets demographic	75
b. Convenience to consumer is key theme	75
c. Wider aisle, lower profiles	76
d. Store within a store approach	76
e. Food service and grocery products on the rise	77
f. Trends in specific departments	77
1. HBC	77
2. Home products	77
3. Apparel	78
4. Consumer electronics	78
g. Other Trends	79

2. Descriptions in Mass Retailing	79
a. Wal-Mart	79
b. K-mart	80
c. BJ's	81
d. Costco	82
e. Sam's	83
D. Analysis of Mass Retail Store Channel	85
V. Convenience Store Analysis	88
A. Structural Changes in Convenience Stores	88
1. Convenience Store Numbers	88
2. Summary Statistics	89
VI. Cross Channel Analysis	91
A. Birds Eye View	91
1. Average number of household trips by format	91
2. Average weekly expenditure by format	92
3. Percentage of households shopping format	93
4. Summary statistics	94
VII. Implications for the Future	97

Executive Summary

Consumer Products Retailing has become an increasingly volatile and competitive marketplace in which to participate. Organizations competing, supplying, and selling in these distribution channels are increasingly aware of consumer driven pressures to provide the best products, services, and information. As a result it is imperative that all consumer product marketers acquaint themselves with a more thorough knowledge of the end-user of the 1990's and beyond and develop means by which to serve his/her needs.

An appropriate channel member to analyze when focusing keenly on consumer trends is the retail store. Specifically it will be useful to all members of the distribution and supply channel to have an understanding of what the "brick and mortar" environment will look like in retail stores of the future. A knowledge of these projections, tempered by consumer wants and needs, allows suppliers to cater their offerings to fit the needs of the "store of the future"

This foundation study is a first attempt to comprehensively evaluate structural, marketing, and strategic trends in three dominant consumer retailing channels: grocery, drug store, and mass retail. It is through these three channels of trade that a significant majority of non-durable consumer goods are purchased. In addition, structural analysis is provided for convenience stores. A secondary research perspective is taken in this study to bring a more well rounded understanding of trends dominating retailing in the past 10 years. This study is to be viewed as a foundation, with the knowledge that a primary data study would expose more specific insights.

Retailing is undergoing significant changes driven by consumers demanding different product offerings, bundled in new manners, presented in a store design that retailers are still scrambling to form. The implications of macro trends are tremendous for retailers and correspondingly their suppliers. A few key consumer trends that drive this study include:

- Increased number of two earner households
- The food dollar is shifting to food prepared outside the home
- Channel blurring is more and more evident
- Consolidation dominates all retail channels
- Increasing demand from consumers for products to do everything, be everything
- Consumers want balance between hi-tech and hi-touch

This foundation study exposes a number of current trends specific to the grocery retail marketplace. Among the more salient issues include:

- Grocery store numbers in steep decline
- Dollar sales in grocery stores on rise, but slowing
- Store openings and remodelings remain prevalent
- Hiring/retaining quality personnel is a challenge
- Home Meal Replacement dominates grocery retailing focus
- Store-within-a store designs are popular with consumers
- Grocery retailers need food service expertise

- Consumer direct is an area that needs more evaluation
- Fresh Foods gain prominence
- Center-of-store is area of concern
- Loyalty marketing programs take center stage

The grocery marketer's need to provide meal solutions catered to a segmented marketplace of consumers who do not wish to shop, creates a significant challenge for food marketers. Grocery company's level of sophistication in terms of operations, product selection, merchandising, and customer service is being pushed to new levels. The result of thorough analysis of these types of environmental trends, critical issues in grocery retailing, and study of current grocer retailing programs resulted in the following implications for the next five years:

- Store-within-a store designs dominate grocery retailing
- An inversion of the store to bring prepared food to the center and shift ingredients to the periphery
- A movement of physical locations to better serve time pressed consumers
- Increasing partnerships and alliances among retailers and suppliers to fill consumer needs
- Survival of only the most innovative, consumer driven retail organizations
- Consumer direct remains uncertain, but could be an important alternative

This foundation study exposes a number of current trends specific to the drug store retail marketplace. Among the more salient issues include:

- Total number of Drug Stores in decline
- Drug Store industry sales in precipitous increase
- Consolidation in Drug Store industry dominates retail landscape
- Convenience for consumer is critical
- Convenience food and beverages on rise
- Professional health care image important point of differentiation
- Pharmacies try to create a "back to the future" image of high customer service and warmth
- Store designs become easier to navigate
- Decreasing pharmacy profits drives need for more front end growth
- Store-within-store designs gain importance to drug retailers
- Home Health Care dominates all departments

Drug retailers have undergone tremendous revitalization within their industry in the early 1990's. Drug retailers lacked the sophistication of their mass retailing and grocery counterparts. They have closed that gap significantly. At the same time environmental issues regarding pharmacy offerings and profitability have changed their core strategies dramatically. In addition, other channels of trade have encroached on their core business tremendously in the past ten years. As a result of these trends, the following implications have been developed for the next five years:

- Product diversification becomes critical to long term sustainability
- Consolidation continues in dramatic fashion over the next five years
- “Me-too” retailing is severely punished by an increasingly demanding consumer
- Customer’s convenience drives the store’s layout
- Home Health Care and Wellness dominate all departments in drug retailing

This foundation study exposes a number of current trends specific to the mass retail store marketplace. Among the more salient issues include:

- Mass Retail stores experiencing the most explosive growth in terms of area and store numbers
- A plethora of store formats exist to serve segmented markets
- Convenience to customer drives layout designs
- Store-within-a-store designs gain popularity
- Foodservice becomes an increasingly important business in some large mass retailers
- Specific categories experience rebirth as they satisfy specific consumer needs.

Mass retailers are enjoying a period of tremendous expansion. Consumers are rewarding them for their one-stop shopping and low prices. Mass retailers have found success in providing services once the domain of other retail sectors. At the same time, these retailers need to be aware that consumers are demanding more convenience, more service, and an easier store to navigate. These challenges and trend study helps us develop the following trends for the next five years:

- A rising interest on behalf of consumers to have food in mass retail stores
- Product adjacencies and bundling is key to meeting consumer convenience needs
- Stores will become more simple in order to overcome “mega-box” image
- Higher margin products will find their way into stores to drive profitability
- Different mass retailers will find their niche even with numerous strategic orientations.

These trends and projections provide the basis for this foundation study. We would recommend a primary data study be conducted to collect consumer marketing executive’s opinions on the issues and trends raised and discussed in this study. That piece would strengthen and build upon research conducted in this study.

I. Introduction

A. Rationale

As the traditional boundaries between major channels of consumer retailing blur, marketers at all points within the various consumer products distribution industries need to accurately predict consumer purchase pattern trends and retail format changes. A more complete understanding of these trends will help retailers best serve the needs of an increasingly knowledgeable ultimate consumer and, at the same time, maximize long-term sustainable profitability for manufacturers and retailers.

To accurately speculate about vital trends in the consumer retail marketplace, it is prudent to investigate both structural and marketing/strategic changes occurring within a number of these vital distribution channels. The focus of this paper will be on the following: grocery, mass retailer, and drug store. It is believed that these three channels are experiencing a degree of interaction that drives critical changes within their structural formats and marketing and merchandising habits.

Specific crucial factors point to the necessity for such a comprehensive investigation:

- The number of two earner, time pressed households has risen dramatically in the past decade, thus making convenience even more a requirement in all consumer purchases, rather than just a luxury.
- According to Progressive Grocer Magazine, the percent of consumer dollars spent on food away from home is rapidly approaching 50% of all consumer dollars spent on food.
- Departments once considered “destinations” in only one channel under study have rapidly become the domain of other channels. For example, the number of supermarkets with pharmacies has increased precipitously since 1988. Mass Merchandisers (specifically Wal-Mart and K-Mart) are aggressively entering the battle for “share of stomach”, and drug stores are rapidly losing margin in pharmacies and paying more attention to cosmetics, HBC, and certain food items.
- There has been significant consolidation in all three channels, thus raising concern amongst retail operators as to which strategies and techniques will attract consumers and increase their longevity as a viable supplier of consumer goods.
- All three channels are experiencing a consumer driven change from supplying “the right product, at the right place, at the right time, at the right price” to being forced to provide “any product, at all places, at any given time, at the best price.”
- Consumers are demanding a near impossible balance be struck between “hi-tech and hi-touch” in their retail shopping experience, an experience that most consumers still rate near the bottom of their preferences.

B. Defining Retailing Channels Under Study

This study will investigate a number of major and sub-category retailing channels. A wide range of channels under study facilitates both a comprehensive look at retailing in the past decade and helps expose critical interactions and overlaps present.

Defining the specific channels studied proves challenging. Data collected came from a combination of trade press magazines as well as trade associations. When sources of primary data were contacted, most had difficulty drawing clear lines of distinction between their channel and others that mimicked certain aspects of their industry. For that reason, definitions provided are guidelines and best approximations for the study data, unless otherwise specified.

- 1. Grocery Store:** A retail establishment of primarily food ingredient items sold in consumer ready form.
- 2. Supermarket Store:** Any grocery store format that has sales in excess of \$2 million annually.
- 3. Conventional Supermarket:** A traditional supermarket, usually with 30,000 square feet or fewer of selling space. *Source: FMI*
- 4. Superstore:** A larger version of a conventional store, usually more than 30,000 square feet of selling space, expanded selection of non-foods, perishables, and customer services. *Source: FMI*
- 5. Chain Supermarket Store:** Any supermarket format organization that has more than one outlet under one ownership entity.
- 6. Independent Grocery Store:** Any grocery store format that only has one physical location for final consumer distribution.
- 7. Combination Supermarket:** Evolved from the food/drug combo concept - usually contains a relatively large selection of general merchandise/health and beauty care, at least 15% of store sales and contains a pharmacy. *Source: FMI*
- 8. Warehouse Grocery Store:** A supermarket that uses utilitarian fixtures and emphasizes lower prices and fewer customer services. *Source: FMI*
- 9. Drug Store:** A retail establishment that focuses primarily on pharmacy and health care related items. Some attention is paid to general merchandise and they contain a very small selection of food items.
- 10. Chain Drug Store:** A drug store company that has 4 or more outlets under one ownership entity.
- 11. Small Chain Drug Store:** A drug store that has 2 or 3 outlets under one ownership entity.

12. Combination Drug Store: A drug store format that has included a significant offering of food items and extensive general merchandise selection.

13. Mass Retail Store: A departmentalized retail establishment utilizing many self-service techniques to sell hardgoods, apparel and other soft goods, health and beauty care products, and other general merchandise. It operates at uniquely low margins, has a minimum annual volume of \$1 million, and has at least 10,000 square feet of total space.

14. Discount Merchandiser: A specific form of mass retailing that focuses on the operational efficiency aspect of business strategy; low prices dominate their marketing and product mix.

15. Specialty Discounter: A specific form of mass retailing that focuses on meeting the unique needs of a specified market segment, in this case focusing on pricing.

16. Wholesale Club: A specific form of mass retailing that focuses on volume and low price, characterized by a lower number of SKU's than typical mass retailers and works to lower price.

17. Deep Discount Drug Store: A unique form of drug retailing that stresses exceptionally low cost, driven in most cases by trying to drive down expenses.

18. Catalog Showroom: A mass retailing format that allows customers to view a wide range of products in a showroom atmosphere and purchase products via a catalog

19. Convenience Store: Any retail format that is "smaller" in size and stresses as its number one objective convenience to the consumer in terms of store layout, product mix, and product sizes. Typically a limited selection of food and general merchandise is available with a limited number of SKU's in each category.

20. Traditional Convenience Store: A convenience store that exists today that started its operation by selling convenience food and general merchandise and may or may not be selling petroleum today.

21. Petroleum Convenience Store: A convenience store that exists today that started its operation by selling petroleum and over time has added general merchandise and convenience food items.

Each of the twenty one categories and sub-categories will be used in the data presentation of this report. As is evidenced by the difficulty of defining, as well as the similarity in certain classifications, there is a significant challenge trying to establish clear distinctions in consumer retail format definition.

Further, it should be noted that the structural trends presentation and discussion will include each of these distinctions. In contrast, the marketing, merchandising, and strategic trend outline will

follow within the delineation of grocery channel, drug store channel, and mass retail channel's only. The convenience store channel has been included in this report in the empirical section only. This data has been included to provide an additional point of reference when comparing structural statistics across major channels. There will be no detailed marketing and strategic discussion of the convenience store industry in this foundation study.

C. Methodology

The base of information provided in this paper has been collected entirely from a secondary research perspective. Extensive utilization of data sources in each channel of trade describes the prominent method of data collection. Trade Associations, Popular Trade Press Journals, Marketing Reports, Company Annual Reports and Press Releases, and Industry Internet Web Sites dominated the collection of information synthesized in this foundation study.

Specific organizations and magazines used most in the empirical data collection phase of this study include:

- Food Marketing Institute, *Facts About Store Development*
- Progressive Grocer, *Annual Report of the Grocery Industry*
- Chain Drug Review, *State of the Industry*
- Discount Merchandiser, *The True Look, State of The Industry Report*
- Convenience Store News, *Convenience Store Industry Report*
- National Association of Chain Drug Stores
- National Association of Convenience Stores

Data was collected as thoroughly as possible for the years 1987 to 1997. This report sought empirical information pertinent to this study in uninterrupted form for each year in the study. However, it should be noted that some factors were either unavailable in certain years, not collected in all years, unpublished in specific magazine or industry reports, or channel definitions changed in such a way as to deem data collection unneeded.

With this knowledge, let it be understood that missing data points existing in this report are not conscious omissions. Rather, this study has worked to preserve the integrity of these data sources and present the most thorough, comprehensive information available from which to build a foundation of understanding and future analysis.

In addition to empirical data collection, popular trade press journals were reviewed to identify more detailed merchandising, marketing, and strategic changes occurring within specific companies in the past several years. It is hoped that this more detailed information discovery

will shed greater insights into the changes occurring in each channel as well as expose interactions and similarities in these channels. Major trade press journals critical to this segment of the study include:

- Progressive Grocer
- Stores Magazine
- Mass Merchandiser Review
- Drug Store News
- Convenience Store News
- Supermarket News
- Discount Merchandiser
- Chain Drug Review
- Discount Store News
- Chain Store Age

Also, this foundation study compiles specific information on store profiles and industry trends from secondary sources available, including reports by: Targetbase Marketing, Andersen Consulting, Company Annual Reports, and Numerous Industry Web Sites. These additional data sources helped in providing more detailed discussion of trends as well as highlighting specific companies to be used in the more detailed description of retailing trends sections.

Finally, much time was devoted to synthesizing, analyzing, and reviewing the data collected. Trends were identified, prioritized, and discussed. Important foundations are included in such a manner as to allow for future additions and insights. Perspectives and outlook into the next five years are included.

II. Grocery Store Format Analysis

The Grocery Store Industry is perhaps the most interesting format under study. These stores have historically been governed by a loyalty to the center store and have paid great attention to manufacturer's strong promotion and promotion dollars of new branded products. This practice, however, caused a significant stagnation in the grocery retailing industry in the late 1980's, and drove consumers to look elsewhere for foods more tailored to their specific needs.

As evidenced by both structural and marketing changes in the past decade, consumers were not impressed by this incredible proliferation of SKU's in the dry grocery department and lack of solutions to consumer's meal development problems. Since this realization, grocery store operators have been scurrying to identify key success factors to bring consumers back to their stores as the undisputed primary source of food and related items.

Within this section are data and trends on the entire grocery industry. Structural numbers presented in **Part A** are aggregate information for all Grocery Store Formats. Where possible certain factors can be broken down into sub categories. Sub-categories to be included in **Parts B, C, D, and E**: Supermarket Stores, Chain Supermarket Stores, Independent Supermarket Stores, and Wholesale Stores, respectively. In **Part F**, this report provides the specific numbers that support each of the graphics found in **Parts A thru E**. **Part G** provides Food Marketing Executive Comments and Concerns. This is followed by **Part H**, the strategic and marketing changes and trends in grocery retailing as well as more detailed examples of grocery industry trends. **Part I**, contains the analysis, perspectives, and outlook for the grocery industry.

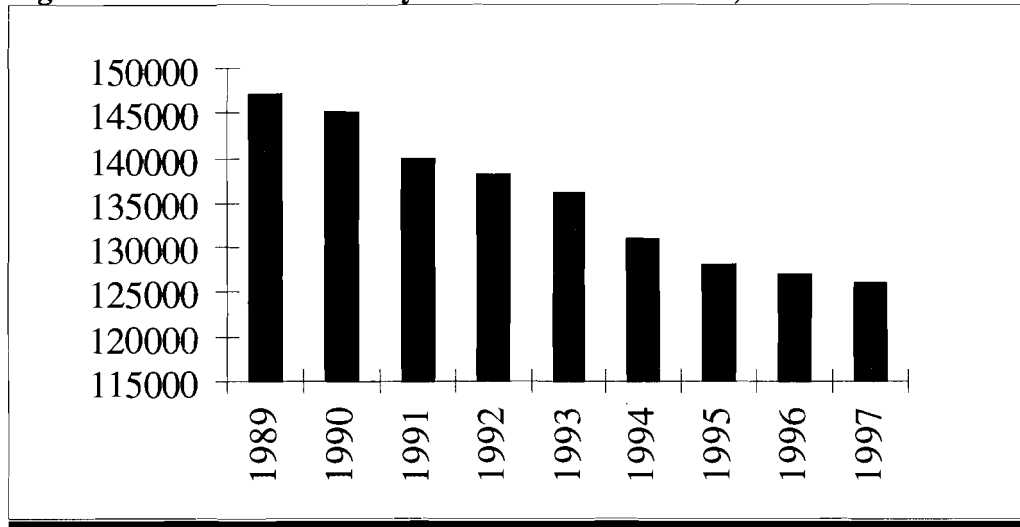
A. Structural Changes Occurring in Grocery Store Formats

Again, the numbers presented in **part A** are mostly aggregate for the entire grocery industry. Exceptions will be noted. Data to be presented: **1.** number of stores, **2.** dollar sales in billions, **3.** average square feet of selling area, **4.** sales per square feet, **5.** median total square feet for new conventional, new superstore, and new combination stores, **6.** median total square feet of selling area for new conventional, new warehouse, new superstore, and new combo stores, **7.** percentage of all stores that are new, closed, and remodeled, **8.** median building and remodeling costs, **9.** percentage of stores including selected departments, **10.** square feet allocated to specific departments.

1. Number of Stores and Dollar Sales within all Grocery Store Formats

To open discussion of the grocery industry as a whole, it is prudent to identify macro trends in the areas of number of grocery outlets and dollars sales within those outlets. This overview provides critical information regarding significant macro trends in the grocery store industry.

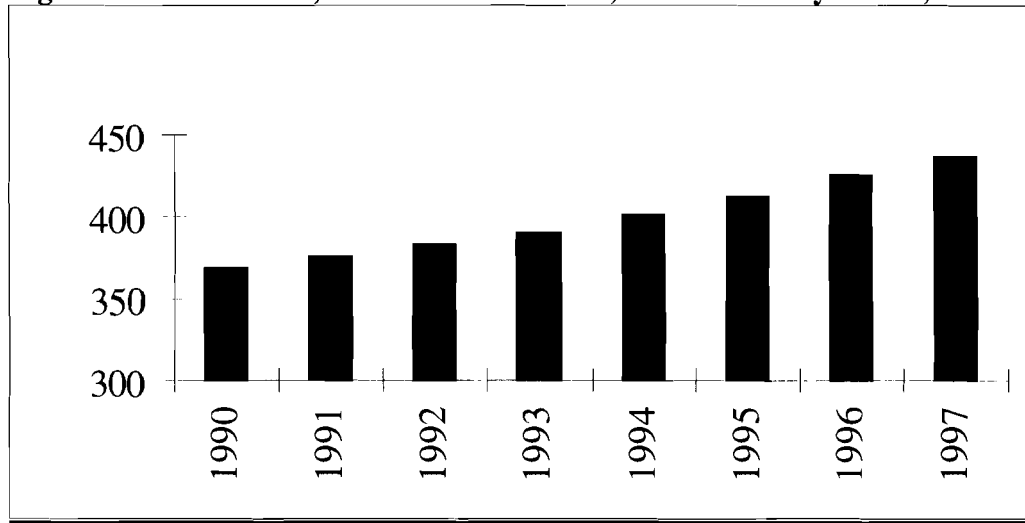
Figure 1. Number of Grocery Stores in United States, 1989 to 1997.



Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

The total number of all grocery stores in the United States has been on a steady decline from 1989 to 1997. The trend can be attributed to the fact that major chain retailers have expanded dramatically in the past decade and have forced the closure of a large number of independent grocery stores. While these chains and larger supermarket formats have opened a number of new stores, as will be discussed elsewhere in this report, the efficiencies gained in the new and larger stores have created a net decline in grocery store number from 147,000 in 1989 to 126,000 in 1997.

Figure 2. Dollar Sales, in Billions of Dollars, for all Grocery Stores, 1990 to 1997.



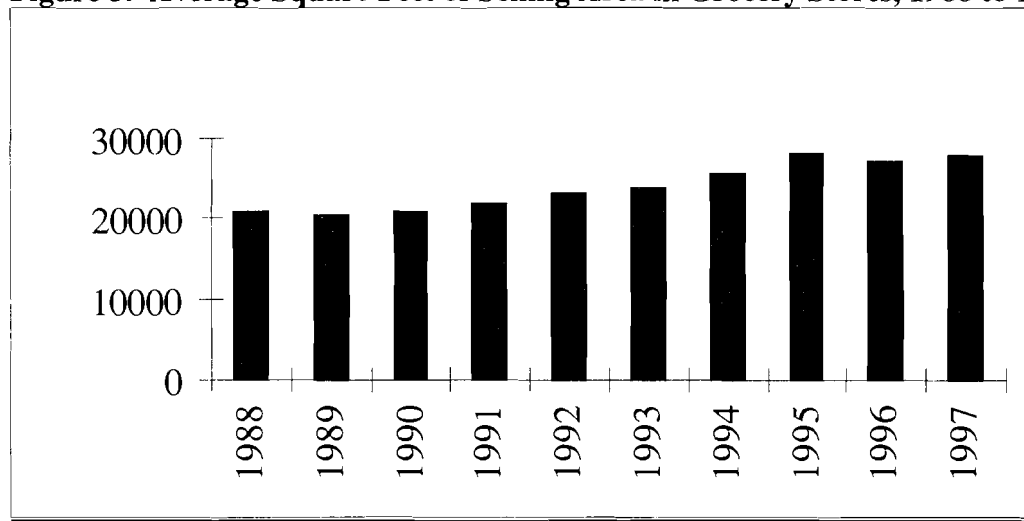
Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

While total grocery store numbers have declined steadily in the past decade, sales have grown each year. However, most recently, sales increases have narrowly kept up with inflation, growing only 2.7%, 3.2% and 2.5% during the past three years. As a result, the growth in sales in the grocery industry is not so much due to better salesmanship or gaining a proportionately larger share of the consumer dollar as it is to the rising cost of a food bundle due to inflation.

2. Average Square Feet of Selling Area and Sales/Square Feet in Grocery Stores.

While the analysis of total stores and overall dollar sales provides broad descriptions of the grocery industry, a better appreciation can be gained for the pulse of the store by looking at what is happening to store size and sales/square feet. Both of these critical indicators tell more about what policies grocery operators are recommending and whether or not space is being used in a more or less profitable manner.

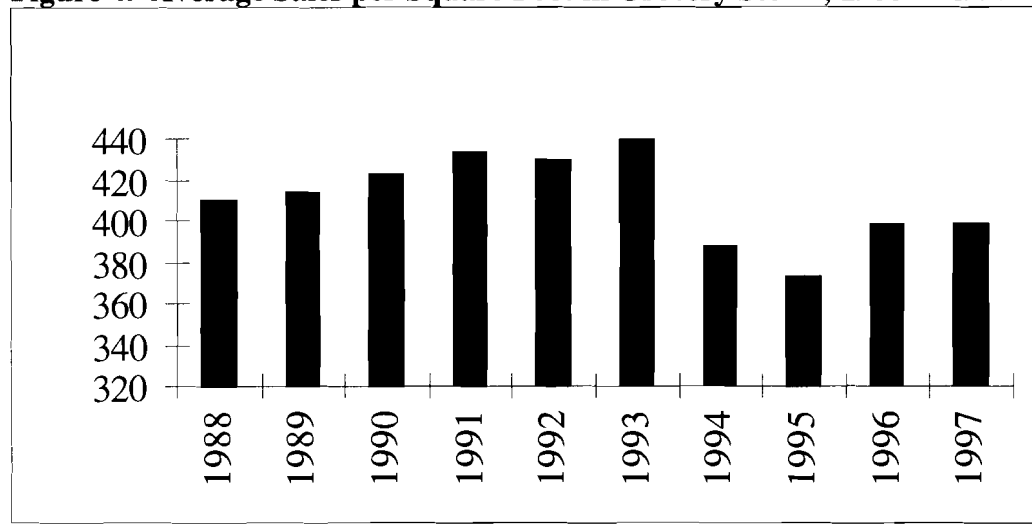
Figure 3. Average Square Feet of Selling Area in Grocery Stores, 1988 to 1997.



Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

Grocery Store operators, in an effort to increase SKU's, offer more services, and cater to the prepared food desires of time pressed consumers, have dramatically increased selling floor area in their stores. Sales floor area was 20,868 square feet in 1988, and has since grown to 27,723 in 1997. While there is an overall trend of selling floor growth in the past decade, the past two years have seen a net decline in sales floor area.

Figure 4. Average Sales per Square Foot in Grocery Stores, 1988 to 1997



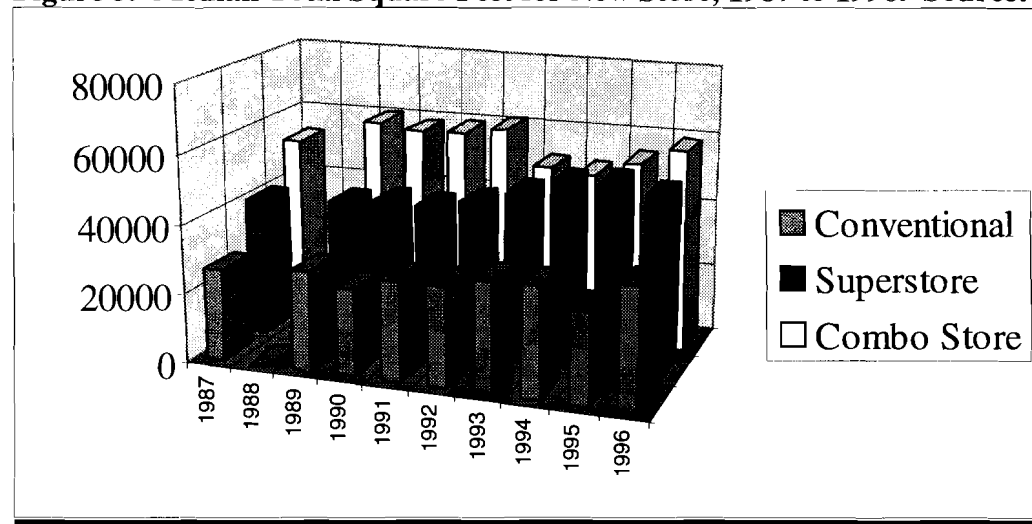
Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

The combination of significant sales floor size increases and slight grocery sales increase has led to an overall decline in sales/square feet in all grocery stores. At the same time, we do see a recovery in sales/square feet in the past three years from a low of \$372.63/square foot in 1995 to \$398.21/square foot in 1997.

3. Median Square Feet and Selling Area Square Feet of New Grocery Store Formats

Analysis of grocery store format size provides a snap shot of the industry as a whole. In comparison, looking at new grocery store formats size can provide a glimpse into the future, as well as help identify the feelings of grocery operators.

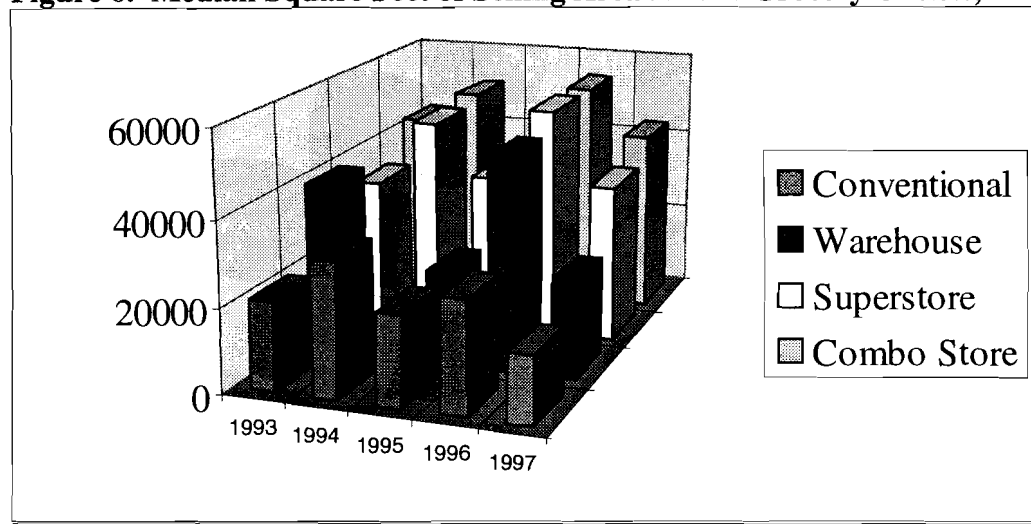
Figure 5. Median Total Square Feet for New Store, 1987 to 1996. Source: FMI,



Source: FMI, Facts About Store Development, Selected Years

As figure 5 makes clear, the average size of superstores is on the rise this past decade, while conventional stores and even combination store sizes are significantly more stagnant. The superstore format has been receiving much attention this past decade and will quite possibly continue to grow in importance and size in the coming years.

Figure 6. Median Square Feet of Selling Area in New Grocery Outlets, 1993 to 1997.



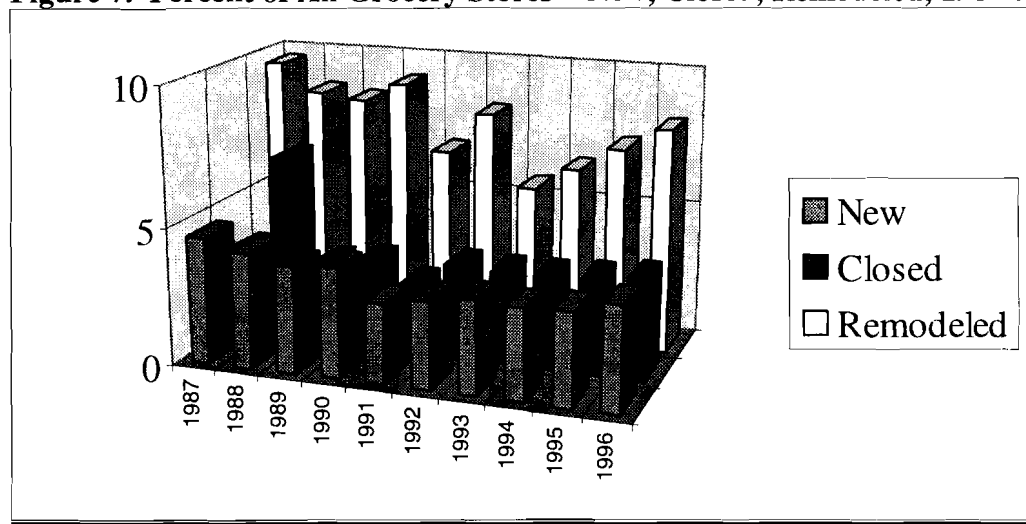
Source: FMI, Facts About Store Development, Selected Years

While the average selling floor area of all grocery stores has risen from 20,000 square feet to over 27,000 square feet in the past decade, it is clear as a result of the proliferation of superstores, combination stores, and warehouse stores, that number is likely to rise. Further, as will be demonstrated in future descriptive analysis, the number of combo stores and superstores is on the rise, thus adding to the likelihood of larger average store sizes, particularly in those format types. At the same time it is important to note that conventional grocery stores have experienced no significant growth in the past 5 years, actually declining somewhat in 1997.

4. Percentage of all Grocery Stores that are New, Closed, and Remodeled

The previous figures provide a look at critical descriptive data within the grocery industry. However, in order to look within the numbers and begin to describe and predict changes that may occur in the coming years it is imperative to “tease out” causes of changes in numbers and sales in grocery stores. One component of such a study is looking at the number of grocery stores that have been opened, closed and remodeled in each of the past several years.

Figure 7. Percent of All Grocery Stores - New, Closed, Remodeled, 1987 to 1996.



Source: FMI, Facts About Store Development, Selected Years

The percent of all stores opened has nearly mimicked the percent of those stores closed in any given year. This combination has lessened the average age of all grocery stores in the U.S. What is more striking from this data is the number of remodels each year. Well above 5% and approaching 10% of all grocery stores have been remodeled in each of the past ten years. This means, excluding store openings and closings, stores are being updated on average every 12-13 years. Whether this is often enough in today's rapidly changing environment remains to be seen.

5. Median Grocery Store Remodeling and Median Grocery Store Building Costs

A thorough analysis of grocery industry structural changes is enhanced by looking at changes in cost per square foot to build and remodeling cost. As has been shown previously, much work has been done in the areas of new store openings and store remodeling in the past decade. Grocery Store operators are laying out significant sums of money to bring these new formats to consumers.

Table 1. Median Cost per Square Foot for Building and Fixture Costs and Remodeling Costs for Grocery Stores, 1992 to 1996.

	1992	1993	1994	1995	1996
Building Cost	\$39.00	\$40.24	\$43.89	\$43.80	\$54.68
		\$1.24	\$3.65	-\$0.09	\$10.88
		3.2%	9.1%	-2%	24.8%
Fixture Cost	\$35.00	\$40.00	\$33.21	\$35.00	\$43.18
		\$5.00	-\$6.79	\$1.79	\$8.18
		14.3%	-17.0%	5.4%	23.4%
Total Construction Cost	\$71.00	\$84.00	\$79.95	\$79.46	\$95.89
		\$13.00	-\$4.05	-\$0.49	\$16.43
		18.3%	4.8%	-.6%	20.7%
Remodeling	\$350,000	\$550,000	\$706,000	\$916,210	\$876,000
		\$200,000	\$156,000	\$210,210	-\$40,210
		57.1%	28.4%	29.8%	-4.4%

Source: FMI, Facts About Store Development, Selected Years

As is evidenced by the data in Table 1, store building and remodeling costs are on a steep increase since 1992 from \$71 per square foot to over \$95 per square foot. This translates to a cash outlay of nearly \$5 million dollars for a 50,000 square foot supermarket. At the same time, remodeling costs are no small expense either. To remodel an average grocery store in 1996, a retailer spent \$876,000. As we recall from a previous figure, some 6-9% of all stores are remodeled each year. Therefore, great sums of money are still being spent on the building and remodeling functions in the grocery industry.

6. Specific Service Offerings in all Grocery Stores

Secondary data available allows an analysis of more specific structural changes than just store size, openings, sales, etc. It is significant to look at specific departments to see which are being offered and which are gaining the greatest attention by food retailers. The following two tables shed light on these issues.

Table 2. Percentage of New Grocery Stores Including Specific Service Offerings, 1993 to 1996.

	1993	1994	1995	1996
Deli	97.3%	95.9%	95.3%	97.9%
Scratch Bakery	95.3%	89.7%	89.4%	95.4%
Pharmacy	53%	67%	70.6%	78.9%
In-Store Banking	13.4%	21.6%	42.4%	72.6%
Fresh Prepared Foods for Takeout	83.9%	77.3%	69.4%	57.4%

Source: FMI, Facts About Store Development, Selected Years

While the deli and scratch bakery have received much attention from food retailers during the past five years, three categories in particular are receiving great new attention. In-Store Banking is now carried by 72.6% of all grocery stores. At the same time, grocery store introduction of pharmacies is on a the rise. 53% of all grocery stores had a pharmacy in 1993, and in 1996 the number climbed to 78.9%. A perplexing trend in this data is the percent of stores carrying fresh prepared foods for takeout. While most industry analysts agree that fresh prepared foods for takeout is a hot trend, this data indicates that fewer stores are offering this service.

Table 3. Median Square Feet Allotted to Specific Departments in New Grocery Stores, 1993 to 1996.

	1993	1994	1995	1996
Bakery	2336	1826 -510 -21.8%	1800 -26 -1.4%	1700 -100 5.6%
Deli	1530	1592 62 4.1%	1300 -292 -18.3%	1174 -126 -9.7%
Fresh Prepared Foods	200	416 216 108%	500 84 20.2%	1000 500 100%
Greeting Cards	400	462 62 15.5%	500 38 7.3%	985 485 97%
Wine	672	1300 628 93.5%	980 -320 -24.6%	964 -16 -1.6%
Dept. with Food Served	-	-	750	850 100 13.3%
Pharmacy	608	840 232 38.2%	640 -200 -23.8%	848 208 32.5%
Floral	770	536	600	640

		-234 -30.4%	64 11.9%	40 6.7%
Video	585	540 -45 -7.7%	1000 460 85.2%	500 -500 -50%
Seafood	765	784 19 2.5%	500 -284 -36.2%	464 -36 7.2%
In-Store Bank	300	531 231 77%	600 69 13.0%	450 -150 -25%
Photo Center	189	240 51 27.0%	120 -120 -50%	291 271 226%

Source: FMI, Facts About Store Development

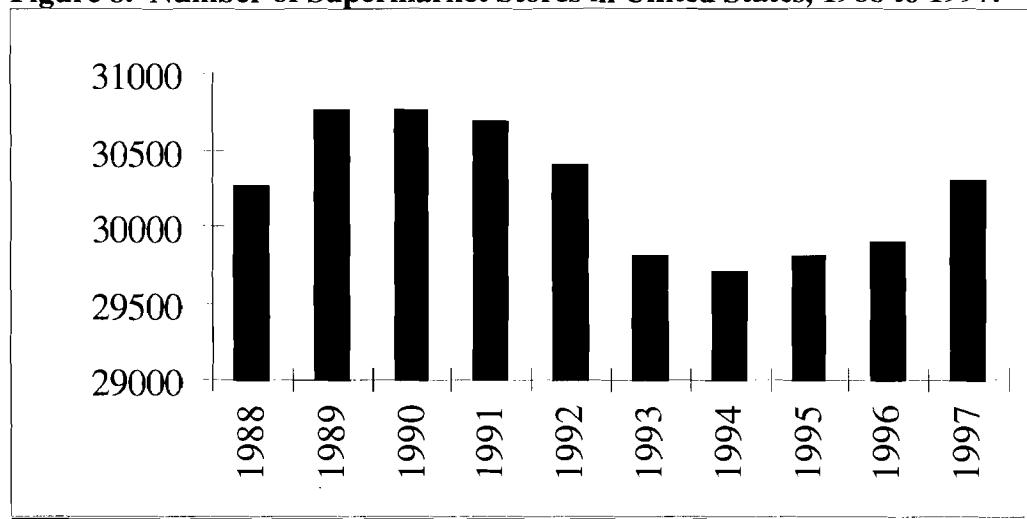
In addition to percentage of stores carrying specific departments, it is of value to look at areas allocated into a number of key departments. Several categories gaining the most attention include: fresh prepared foods (up 400% from 1993), greeting cards (more than doubling space in four years), and pharmacy (up 33%). The biggest losers of space include: bakery, deli, floral, and video.

B. Structural Changes Occurring in Supermarket Formats

Next a break down of the analysis more specifically into several different classifications helps to gain an understanding of which specific format types within grocery retailing are contributing most greatly to changes in the overall macro trends.

1. Number of and Sales in Billions of Dollars in Supermarket Stores

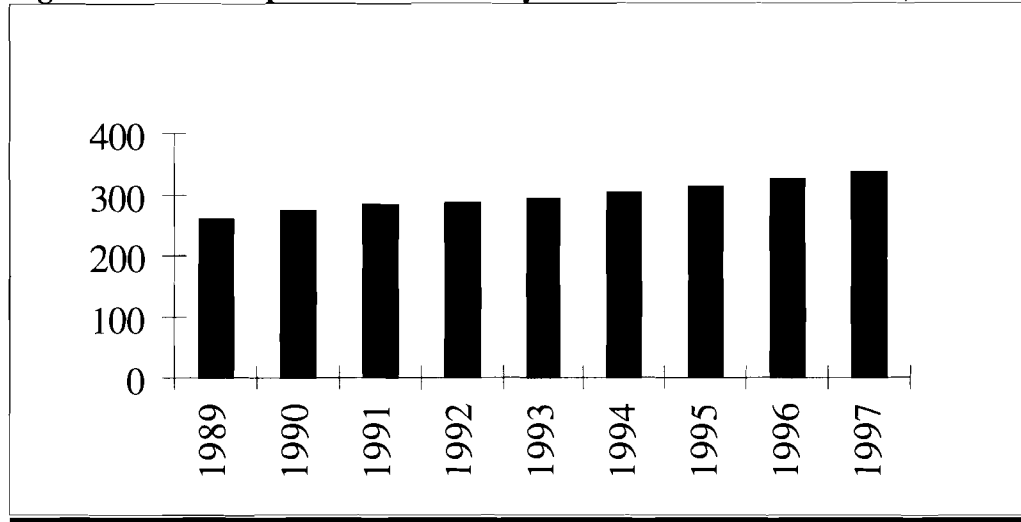
Figure 8. Number of Supermarket Stores in United States, 1988 to 1997.



Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

While grocery store number have showed a steady decline, supermarket stores have ridden a more volatile curve. In 1993 supermarket store numbers dropped a precipitous 2% in one year. Since that time supermarkets, the single largest category in the grocery industry, has rebounded to post increases in numbers to 30,300 stores in 1997.

Figure 9. Total Supermarket Industry Sales in Billions of Dollars, 1989 to 1997.



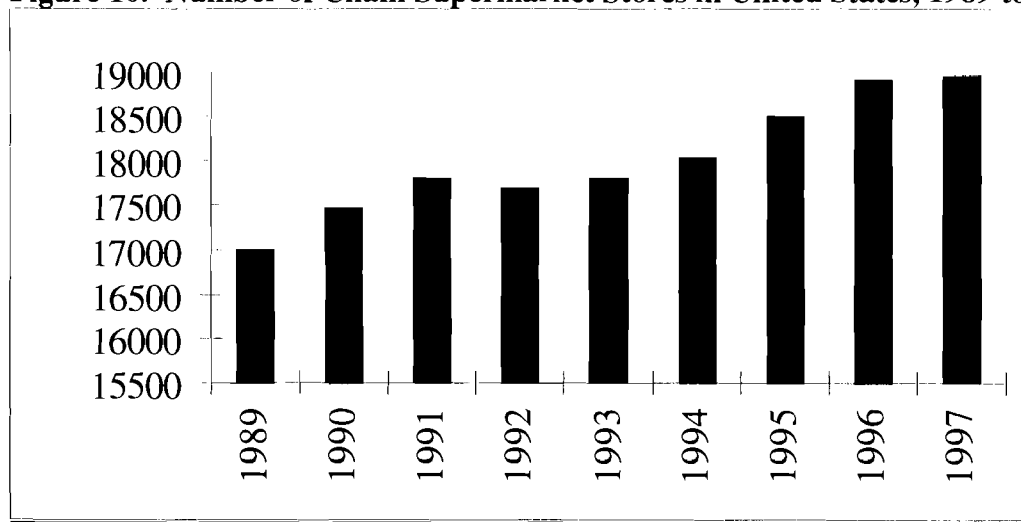
Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

As reflected in total grocery industry sales, supermarket sales have shown a steady increase from 1989 to 1997. What contrast the supermarket format from all grocery store formats, however, is the size of each year's increase. In each year from 1990 to 1997 supermarket sales growth outpaces that of the industry as a whole. Even in 1993, with store numbers taking a steep decline, they still post a sales increase of 2.0%. Clearly this features demonstrates the marketing savvy of supermarket operators and the strength of this format option.

C. Structural Changes occurring in Chain Supermarket Stores

1. Number of and Sales in Billions of Dollars in Chain Supermarket Stores

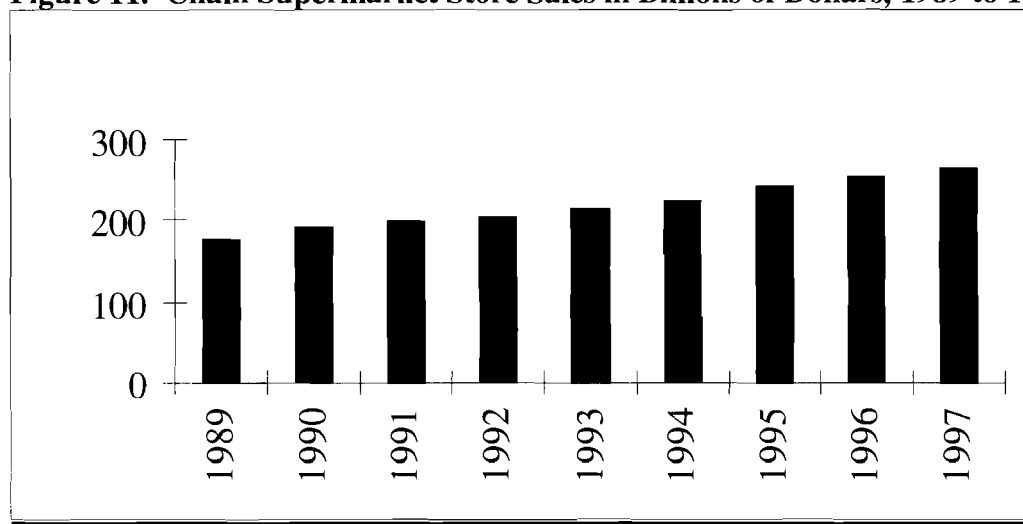
Figure 10. Number of Chain Supermarket Stores in United States, 1989 to 1997.



Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

Chain Supermarket numbers have also risen as a whole since 1989, and continue to do so in the most recent years. Chain Supermarket operators find new markets to penetrate and look to fully dominate those in which they exist. Two of the past three years have been particularly strong growth years in the Chain Supermarket industry, posting growth rates of 2.6% in 1995 and 2.3% in 1996.

Figure 11. Chain Supermarket Store Sales in Billions of Dollars, 1989 to 1997.



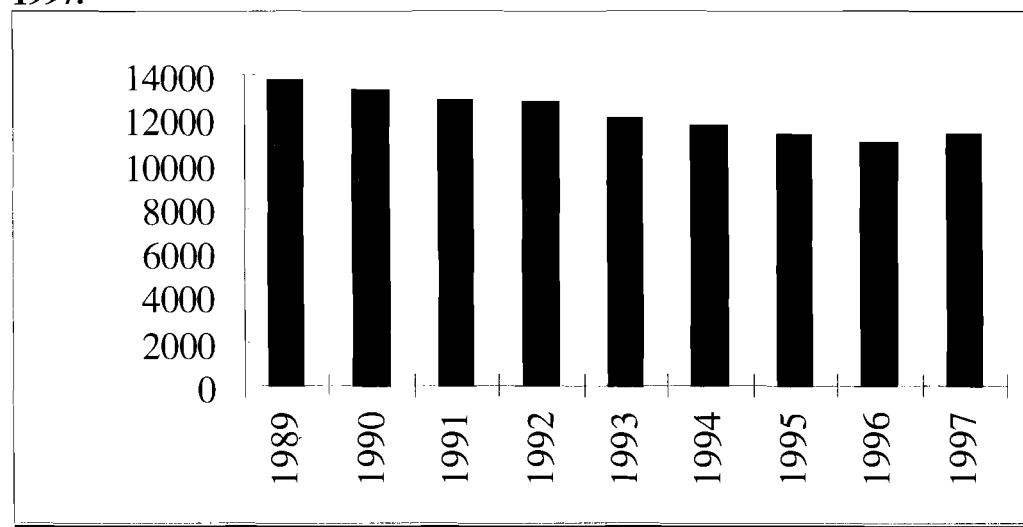
Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

Quite possibly a more telling number than Chain Supermarket Store numbers is sales growth. Chain Supermarket sales have far outpaced inflation and even posted growth numbers in the recession filled early 1990's. Even as other grocery formats lose sales to other mass retailing formats, Chain Supermarkets post sales increases of 5.0% in 1996 and 3.8% in 1997.

D. Structural Changes Occurring within Independently Owned Supermarkets.

1. Number and Sales in Billions of Dollars in Independently Owned Supermarket Stores.

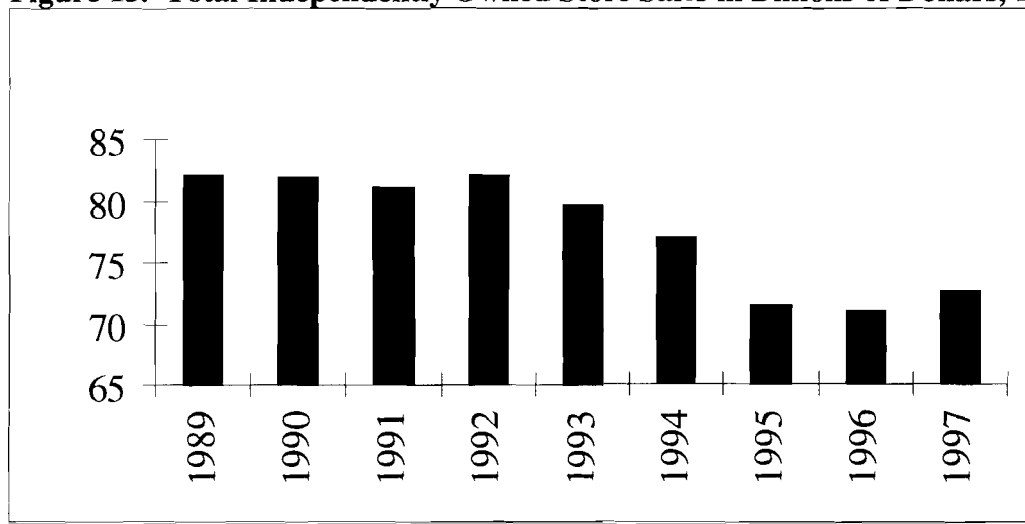
Figure 12. Number of Independently Owned Supermarket Stores in United States, 1989 to 1997.



Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

The store format that has demonstrated the biggest decline in grocery retailing is the independent retailer. Store numbers have dropped from 13,770 in 1989 to a low of 10,980 in 1996 before rebounding 2.3% to 11,345 in 1997. Independent retailers have a greater difficulty keeping pace with changes in technology, hiring and retaining good employees, providing quality benefits packages, and renovating stores to reflect changes in grocery retailing of the 1990's.

Figure 13. Total Independently Owned Store Sales in Billions of Dollars, 1989 to 1997.



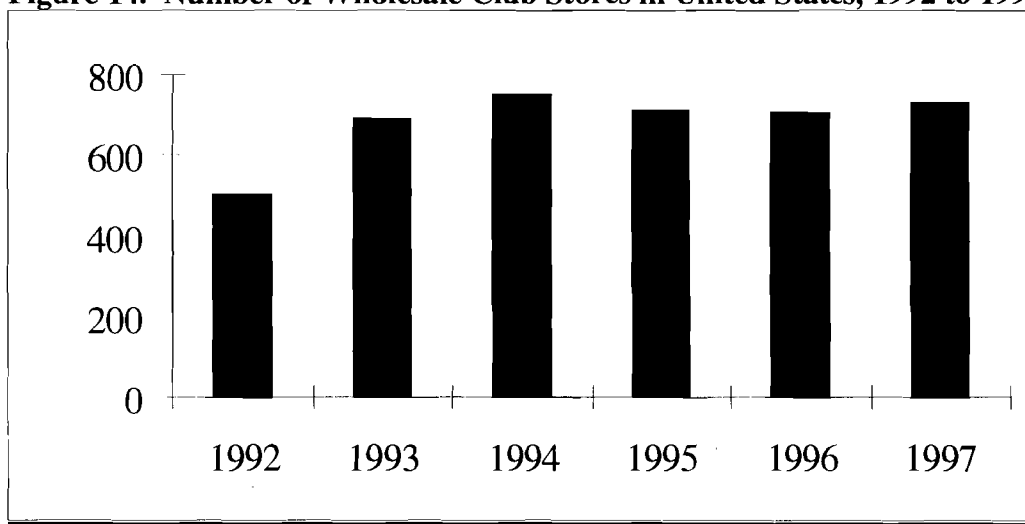
Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

A more dramatic illustration of independent store struggles is their decline in total sales. From 1989 to 1997 independent supermarket store sales have dropped from \$82 Billion to \$72.5 Billion, an over 10% loss in sales.

E. Structural Changes Occurring within Wholesale Food Club Stores

1. Number of and Sales in Billions of Dollars in Wholesale Food Club Stores

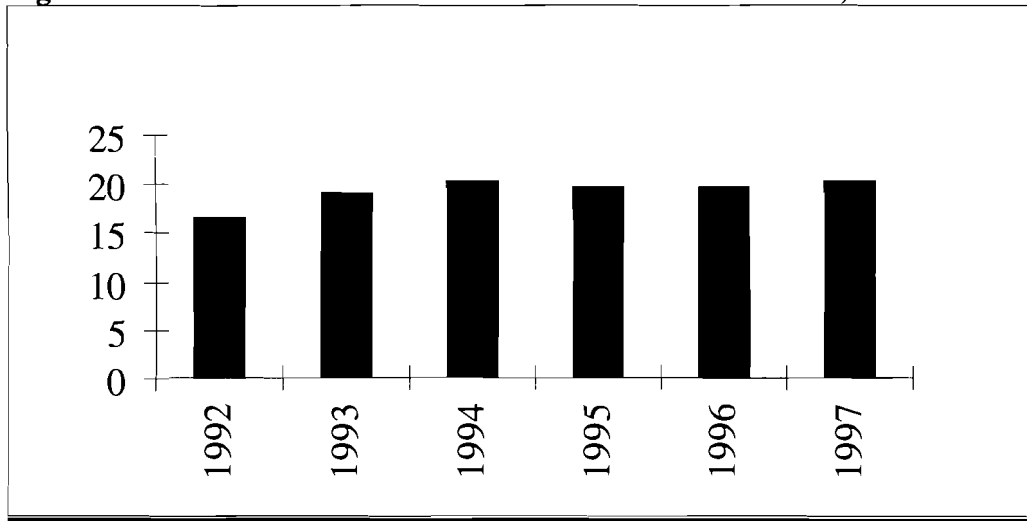
Figure 14. Number of Wholesale Club Stores in United States, 1992 to 1997.



Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

Wholesale Club Store numbers made a dramatic leap of 38% in 1992, followed by 8.7% increase the following year. However, since that time growth has been more subdued. The Wholesale Club format experienced success in the late 80's and early 90's, but may have lived their heyday as store numbers have declined from 750 to 730 in the past 4 years.

Figure 15. Wholesale Club Stores Sales in Billions of Dollars, 1992 to 1997.



Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

Further confirming the thinking exposed from Wholesale Club Numbers is the lack of significant sales growth in Wholesale Clubs since 1993. In 1993 the industry saw sales growth of 15.2 %, but has scarcely held its ground, and certainly not exceeded inflation.

F. Summary Statistics For Grocery Retailing

To shed greater insights into the figures shown in prior analysis the following tables have been included summarizing both grocery industry aggregate data as well as more specific channel analysis where possible.

7. Summary Statistics For Grocery Formats

Table 4. Selling Area, Checkouts, Full-Time Employees, Sales/Sq.Ft., and Sales/Employee in all Grocery Stores, 1988-1997.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Selling Area	20868	20445 -423 -2.0%	20797 352 1.7%	21941 1144 5.5%	22978 1037 4.7%	23778 800 3.5%	25603 1825 7.7%	28077 2474 9.7%	27142 -935 -3.3%	27723 581 2.1%
Checkouts	7.3	7.2 -.1 -1.4%	7.3 .1 1.4%	7.6 .3 4.1%	7.8 .2 2.6%	7.9 .1 1.3%	8.2 .3 3.8%	8.5 .3 3.7%	8.7 .2 2.4%	8.8 .1 1.1%
Full-Time Employees	47.3	47.5 .2 .4%	47.3 -.2 -.4%	51 3.7 7.3%	51.5 .5 1.0%	54.6 3.1 6.0%	57.9 3.3 6.0%	59.6 1.7 2.9%	62.9 3.3 5.5%	64 1.1 1.7%
Sales/Sq.Ft.	\$409.64	\$413.68 \$4.04 1.0%	\$422.69 \$9.01 2.2%	\$433.27 \$10.58 2.5%	\$429.61 -\$3.66 -.8%	\$439.11 \$9.50 2.2%	\$387.15 -\$51.96 -11.8%	\$372.63 -\$14.52 -3.8%	\$397.74 \$25.11 6.7%	\$398.21 \$.47 .1%
Sales/ Employee	\$173,468	\$171,144 -\$2324 -1.3%	\$176,655 \$5511 3.2%	\$179,630 \$2975 1.7%	\$187,015 \$7385 4.1%	\$183,324 -\$3691 -2.0%	\$182,159 -\$1165 -.6%	\$175,396 -\$6763 -3.7%	\$171,616 -\$3780 -2.2%	\$172,602 \$986 5.7%

Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

Listed is specific data for the graphs shown previously. In addition this data reflects the increase in number of full time employees, decline in sales/employee, and increase in number of checkouts. These three trends speak to changes and concerns within grocery retailing. As will be shown in comments from grocery store executives, a great concern lies in hiring and retaining quality employee. This should be a concern with the trend to increasing the number of full-time equivalent employees. Further, consumer pressures to making the shopping experience quicker has driven the need for more checkouts reflected in the rise from 7.3 to 8.8 checkouts in just ten years. An area of concern for grocery operators is that while more employees are required to provide the service offerings demanded by consumers, sales are not being driven to increase sales/employee.

Table 5. Number of Stores and Sales in Billions of Dollars in Different Grocery Retailing Store Format Types, 1989 to 1997.

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Grocery Store Numbers	147000	145000 -2000 -1.4%	140000 -5000 -3.4%	138000 -2000 -1.4%	136000 -2000 -1.4%	131000 -5000 -3.7%	128000 -3000 -2.3%	127000 -1000 -.8%	126000 -1000 -.8%
Grocery Store Sales	\$351	\$368.5 \$17.5 5.0%	\$376.2 \$7.7 2.1%	\$382.6 \$6.4 1.7%	\$390 \$7.4 1.9%	\$401.7 \$11.7 3.0%	\$412.5 \$11.8 2.7%	\$425.7 \$13.2 3.2%	\$436.3 \$10.6 2.5%
Supermarket Store Numbers	30750	30750 0 0%	30670 -80 -.2%	30400 -270 -.8%	29800 -600 -2.0%	29700 -100 -.3%	29800 100 .3%	29900 100 .3%	30300 400 1.3%
Supermarket Store Sales	\$257.6	\$271.7 \$14.1 5.5%	\$280.4 \$8.7 3.2%	\$286.3 \$5.9 2.1%	\$292 \$5.7 2.0%	\$301 \$9.0 3.1%	\$311.7 \$10.7 3.6%	\$323.2 \$11.5 3.7%	\$334.5 \$11.3 3.5%
Chain Supermarket Store Numbers	16980	17460 480 2.8%	17810 350 2.0%	17690 -120 -.6%	17800 110 .6%	18035 235 1.3%	18500 465 2.6%	18920 420 2.3%	18955 35 .2%
Chain Supermarket Sales	\$175.6	\$189.8 \$14.2 8.1%	\$199.3 \$9.5 5.0%	\$204.3 \$5.0 2.5%	\$212.4 \$8.1 4.0%	\$224 \$11.6 5.5%	\$240.3 \$16.3 7.3%	\$252.3 \$12.0 5.0%	\$262 \$9.7 3.8%
Independent Supermarket Store Numbers	13770	13290 -480 -3.5%	12860 -430 -3.2%	12710 -150 -1.2%	12000 -710 -5.6%	11665 -335 -2.8%	11300 -365 -3.1%	10980 -320 -2.8%	11345 +365 3.3%
Independent Supermarket Sales	\$82	\$81.9 -\$1 -.1%	\$81.1 -\$8 -1%	\$82 \$.9 1.1%	\$79.6 -\$2.4 -2.9%	\$77 -\$2.6 -3.3%	\$71.4 -\$5.6 -7.3%	\$70.9 -\$5 -7%	\$72.5 \$1.6 2.3%
Wholesale Club Store Numbers	-	-	-	500	690 190 38%	750 60 8.7%	710 -40 -5.3%	705 -5 -.9%	730 25 3.5%
Wholesale Club Store Sales	-	-	-	\$16.5	\$19 \$2.5 15.2%	\$20.3 \$1.3 7%	\$19.6 -\$7 -3.4%	\$19.6 \$0 0%	\$20.3 \$.7 3.6%

Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

Table 6. Percentage of all Grocery Stores that are New, Closed, and Remodeled, 1987 to 1996.

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
New	4.6%	4.2%	3.9%	4%	2.9%	3.2%	3.4%	3.3%	3.4%	3.8%
Closed	3.3%	6.8%	3.1%	3.3%	2.6%	3.5%	3.4%	3.4%	3.5%	3.7%
Remodeled	9.6%	8.6%	8.4%	9.1%	6.7%	8.2%	5.6%	6.4%	7.3%	8.1%

Source: FMI, Facts About Store Development, Selected Years

Table 7. Percentage Change in Area given to Various Departments in New Grocery Store Formats, 1993 to 1996.

	1993 - 1996
Bakery	-27.2%
Deli	-23.3%
Fresh Prepared Foods	400%
Greeting Cards	146.3%
Wine	43.5%
Department with Food Served	13.3%
Pharmacy	39.5%
Floral	-16.9%
Video	-14.5%
Seafood	-39.3%
In-Store Bank	50.0%
Photo Center	54.0%

Source: FMI, Facts About Store Development, Selected Years

G. Food Marketing Executives Comments, 1993-1997

Before moving into specific examples from the past 1-5 years illustrating more specific changes in marketing, strategic, and tactical changes in grocery retailing, included are comments and concerns of food marketing executives in the past 5 years.

1993 Comments

A. Top 10 Concerns by Chain Store Executives in the Coming Year Percentage of Executives Concerned

1. Government regulations on Food Labeling	83.2%
2. Tax Increases	83.0%
3. NonSupermarket Competition	82.9%
4. Difficulty in Maintaining Current Net Profit Margin	75.8%
5. Difficulty in Maintaining Current Employee Benefits Package	75.0%
6. Cuts in Inventory	74.0%
7. Difficulty in Recruiting Good Employees	71.0%
8. Business Going to SuperCenters	66.2%
9. Moves to Efficient Consumer Response	60.7%
10. Difficulty in Generating Sufficient Capital Internally-Growth	60.3%

B. Actions: How Likely to Stress the Following Issues by Chain Executives Action Index: Unlikely (0), Likely (50), Very Likely (100)

1. Stress Private Label	78.6
2. Tighten Standards in Deal Buying	68.6
3. Improve Merchandising Cooperation with Manufacturers	67.6
4. Operate with Lower Total Inventory	61.2
5. Stress Premium Private Label	60.8
6. Demand better Cash Discount Terms	60.0
7. Work Seriously with Efficient Consumer Response	59.7
8. Increase Minimum Item Movement Standards	56.6
9. Expand UCS/EDI usage	54.8
10. Increase Capital Spending	54.7

C. Competitive Tactics: Which Tactics will likely grow in the coming year?

Net Change in Tactic Use = Percentage Increase minus Percentage Decrease

1. Emphasis on Perishables	+66
2. Hotter Specials	+61
3. Stress Private Label	+61
4. Move to EDLP	+60
5. Demos/Sampling	+56
6. Store Coupons	+56
7. Customer Service	+54
8. Stress Fresh Prepared Foods	+46
9. Warehouse Club Packs	+45
10. Mailers/Circulars	+34

Source: Progressive Grocer, Annual Report of the Grocery Industry, 1994

1994 Comments

A. Top 10 Concerns by Chain Store Executives in the Coming Year

Percentage of Executives Concerned

1. Moves to Category Management	82.6%
2. NonSupermarket Competition	82%
3. Difficulty Recruiting Good Employees	77.6%
4. Moves to Cross Docking	75.3%
5. Cuts In Inventory	71.6%
6. Difficulty Maintaining Current Net Profit Margin	69.6%
7. Business to SuperCenters	66.3%
8. Moves to Continuous Replenishment	64.7%
9. Mergers and Acquisitions	64.6%
10. Difficulty Managing Current Employees Benefits	64.1%

B. Actions: How Likely to Stress the Following Issues by Chain Executives

Action Index: Unlikely (0), Likely (50), Very Likely (100)

1. Use category management	73.8
2. Stress Private Label	73.1
3. Improve Merchandising Coop. with Manufacturers	63.3
4. Use Cross Docking	60.7
5. Work on Efficient Consumer Response	60.5
6. Tighten Standards on Deal Buying	59.8
7. Operate with Lower Inventory	59.0
8. Stress Premium Private Label	58.7
9. Expand UCS/EDI	54.8
10. Demand better cash discount terms	54.5

C. Competitive Tactics: Which Tactics will Likely grow in the coming year?

Net Change in Tactic Use = Percentage Increase minus Percentage Decrease

1. Emphasis on Perishables	+72
2. Hotter Specials	+65
3. Stress Private Labels	+60
4. Customer Services	+55
5. Stress Fresh Prepared Foods	+51
6. Moves to EDLP	+49
7. Demos/Sampling	+47
8. Newspaper Inserts	+45
9. Store Coupons	+40
10. Newspaper Ads	+40

Source: Progressive Grocer, Annual Report of the Grocery Industry, 1995

1995 Comments

A. Top 10 Concerns by Chain Store Executives in the Coming Year

Percentage of Executives Concerned

1. Difficulty in Recruiting Good Employees	90.6%
2. Non Supermarket Competition	86.3%
3. Moves to Category Management	85.1%
4. Moves to Cross Docking	83.2%
5. More Food Service in Stores	82.9%
6. Cuts in Inventory	77.3%
7. Mergers and Acquisitions	77.0%
8. Headquarters Downsizing	73.5%
9. Business Going to SuperCenters	72.8%

B. Actions: How Likely to Stress the Following Issues by Chain Executives

Action Index: Unlikely (0), Likely (50), Very Likely (100)

1. Stress Private Label	75.7
2. Stress Category Management	75.0
3. Continue to work on Efficient Consumer Response	69.8
4. Stress Efficient Assortment	67.6
5. Tighten Standards in Deal Buying	67.0
6. Use Cross Docking	65.9
7. Improve Merchandising Cooperation with Manufacturers	62.0
8. Operate with lower total inventory	61.6
9. Expand UCS/EDI	58.8
10. Increase Capital Spending	57.1

C. Competitive Tactics: Which Tactics will Likely grow in the coming year?

Net Change in Tactic Use = Percentage Increase minus Percentage Decrease

1. Emphasis on Perishables	+90
2. Prepared Entrees/Meals	+83
3. Use of Category Management	+83
4. Stress Private Label	+72
5. Demos/Sampling	+66
6. Customer Services	+66
7. Stress Food Service	+66
8. Frequent Shopper Programs	+64
9. Stress premium Private Label	+54
10. Offering Home Shopping	+44

Source: Progressive Grocer, Annual Report of the Grocery Industry, 1996

1996 Comments

A. Top 10 Concerns by Chain Store Executives in the Coming Year

Percentage of Executives Concerned

1. Difficulty Recruiting Good Employees	87.2%
2. More Food Service in Stores	87.1%
3. Mergers and Acquisitions	86.6%
4. Non Supermarket Competition	85.9%
5. Moves to Category Management	84.0%
6. Moves to Cross Docking	75.0%
7. Headquarters Downsizing	70.7%
8. Difficulty in maintaining Net Profit Margin	70.6%
9. Cuts in Inventory	70.1%
10. Reduction in deals	65.9%

B. Actions: How Likely to Stress the Following Issues by Chain Executives

Action Index: Unlikely (0), Likely (50), Very Likely (100)

1. Increase Private Label	73.1
2. Use Category Management	68.1
3. Efficient Assortment	67.6
4. Efficient Consumer Response	62.3
5. Tighten Standards in Deal Buying	61.7
6. Use Cross Docking	61.7
7. Increase Capital Spending	60.5
8. Improve Merchandising Coop. with Manufacturers	59.9
9. Operate with Lower Inventory	57.5
10. Premium Private Label	57.5

C. Competitive Tactics: Which Tactics will Likely grow in the coming year?

Net Change in Tactic Use = Percentage Increase minus Percentage Decrease

1. Home Meal Replacement	+91
2. Perishables	+87
3. Category Management	+83
4. Customer Services	+75
5. Private Label	+72
6. Frequent Shopper Programs	+70
7. Stress Food Service	+69
8. Demos/Sampling	+59
9. In-store merchandising/kiosks	+49
10. Premium Private Label	+46

Source: Progressive Grocer, Annual Report of the Grocery Industry, 1997

1997 Comments

A. Top 10 Concerns by Chain Store Executives in the Coming Year Percentage of Executives Concerned

	Rank	97	96	95	94	93
1. Difficulty in recruiting Good Employees	90.8%	1	1	1	3	7
2. Difficulty in retaining Good Employees	88.9%	2	NR	NR	NR	NR
3. Non Supermarket Competition	88.4%	3	4	2	2	3
4. More Food Service in Stores	84.2%	4	2	5	NR	NR
5. Mergers and Acquisitions	79.5%	5	3	7	9	12
6. Moves to Category Management	75.0%	6	5	3	1	NR
7. Capitalization of New Technology	73.9%	7	NR	NR	NR	NR
8. Cuts in Inventory	71.9%	8	9	6	5	6
9. Moves to Cross Docking	70.6%	9	6	4	4	NR
10. Difficulty Maintaining Current Net Profit Margins	69.2%	10	8	10	6	4

B. Actions: How Likely to Stress the Following Issues Action Index: Unlikely (0), Likely (50), Very Likely (100)

	Rank	97	96	95	94	93
1. Ready to Eat Meals	79.3	1	NR	NR	NR	NR
2. Private Labels	76.9	2	1	1	2	1
3. Stress Category Management	73.5	3	2	2	1	NR
4. Use Cross Docking	70.3	4	6	6	4	NR
5. Efficient Assortment	68.3	5	3	4	NR	NR
6. Tighten Standards in Deal Buying	66.3	6	5	5	6	2
7. Improve Merchandising Coop. with Manufacturers	64.5	7	8	7	3	3
8. Work on Efficient Consumer Response	61.6	8	4	3	5	7
9. Increase Capital Spending	61.0	9	7	10	12	10
10. Expand UCS/EDI Usage	58.2	10	11	9	9	9

C. Competitive Tactics: Which Tactics will Likely grow in the coming year?

Net Change in Tactic Use = Percentage Increase minus Percentage Decrease

	Rank	97	96	95	94	93
1. Home Meal Replacement	+88	1	1	2	5*	8*
2. Emphasis on Perishables	+88	2	2	1	1	1
3. Frequent Shopper Programs	+76	3	6	8	NR	NR
4. Customer Services	+75	4	4	6	4	7
5. Use of Category Management	+72	5	3	3	NR	NR
6. Stress Food Service	+68	6	7	7	NR	NR
7. Private Label	+67	7	5	NR	3	3
8. Demos/Sampling	+60	8	8	5	7	5
9. Hotter Specials	+51	9	NR	NR	2	2
10. Premium Private Label	+44	10	10	9	NR	NR

*called "Stress Fresh Prepared Foods" in 1994 in 1993

Source: Progressive Grocer, Annual Report of the Grocery Industry, 1998

H. Specific Marketing and Strategic Focus in Grocery Store Formats

1. Identification of critical trends in Grocery Store Retailing

a. Home meal replacement, meal solutions, freshly prepared, ready-to-eat and ready-to-heat foods is on the rise.

The hottest topic in grocery retailing today is home meal replacement (HMR). Research shows that more prepared meals are now taken out from fast-food joints, Chinese restaurants and pizza places than eaten inside the restaurants! According to Salomon Smith Barney's Stacey Jamar, the category of HMR is a \$62 Billion business and will double in size over the next seven years, the fastest growth in the food service industry. Grocery retailers are convinced that the best way to regain dollars lost to food spent away from home is to make their food offerings more convenient. This falls into the categories of ready to eat or ready to heat. While most grocery operators agree that HMR is a critical trend for the future of their stores, there is considerable debate as to the best way to provide such a service. Listed below are examples of strategies and techniques being implemented to start a successful HMR program as well as support for the HMR trend:

- Free-standing food kiosks are used to display foods and dispense meal solutions
- Food courts offer a variety of prepared foods: pizza, coffee, hot buffets, salad bars, and sandwiches.
- Rotisserie meals, a la Boston Market are also popular.
- “You need intense volume to make it work,” says Ron Paul, president of Technomic Inc., a food industry consulting firm in Chicago. “The restaurants that have tried didn’t have as broad assortment as the grocery stores. The grocery stores didn’t have the reputation for quality like the restaurants.”
- According to Supermarket Strategic Alert, March 1997, there are four ways to ensure HMR success: 1. In-store cooperation, 2. Great Meal Solutions that cross traditional boundaries of departments, 3. Effective merchandising, 4. Product Developments with the local consumer in mind.
- A survey by Supermarket News shows that consumers believe that fresh take-out food has improved relative to mid-priced restaurants and fast food.
- King Kullen stores have a section called Fantastic Foods that dominates a 20 foot of space devoted to instant soup and instant meal solutions. (Lo Bosco 1997)
- 11,000 square foot Provisions store is a unique case in HMR. This store describes itself as part gourmet specialty store and part meal store. Target is male clientele seeking to bring home a meal after work. (Harper, 1997)
- The newest design for ShopRight pays special attention to HMR. Partnering with the Wakefern Corporation, ShopRight has turned over 1/3 of floor space to hot and cold meals and other perishables. (Robertiello, 1997)
- Ukrop’s features ten different meal idea centers including “Ukrop’s Kitchen”, and an area devoted for meals for two. (Owens, 1997)

b. Store-within-a-store formats developed for destination categories.

Grocery operators are in a most challenging fight today, the fight for “share of stomach.” In order to regain food dollars now spent on food away from home, the grocery industry has had to identify portions of its store as destination categories for consumers. For the first time in grocery industry history, just being a supplier of food ingredients is not reason for all consumers to shop at a grocery *first* for their food needs. To counter this movement away from their stores, grocery retailers have implemented **store within a store** designs to create destination categories and departments. A few specific examples of this strategy in grocery retailing include:

- Partnerships with food service retailers to create branded foods service offerings, often a store-within-a-store concept.
- Retailers are experimenting with “meal solutions”, or offering all necessary items for a meal in one area of the store.
- Harris Teeter uses extensive signage to create a store within a store image for their “Natural Choice” department of organic products. (Angrisani, 1997)
- Harmon Stores introduce a food court in response to consumer interviews. (Radice, 1997)

c. Grocery retail hiring of personnel from outside the grocery industry, particularly in the area of food service.

In the highly competitive arenas of HMR and meal solutions, grocery stores are recognizing their lack of competency in the area of food service. It is becoming more and more evident that grocery store executives and specific store and department managers are not equipped or trained to handle the complexities of a food service operation. As a result most retailers are looking to hire personnel from the food service industries to spearhead their HMR and Meal Solutions ventures. In addition, grocery operators are looking to capitalize on the skills of these experts to translate meal solution ideas to final consumers. Specific examples of such a technique would include:

- Some stores have in-store chefs and offer cooking classes and other lessons.
- Harris Teeter hires culinary chefs on staff to prepare foods. (Lo Bosco, 1997)
- Harmon Stores in St. George, Utah looked outside of the supermarket industry to find the expertise to run their deli and prepared foods to go. (Radice, 1997)

d. Consumer Direct strategies take on greater importance.

With consumers becoming increasingly time pressed, seeking meals anywhere and anytime, grocery operators are looking to broaden the channels of trade for their products. Consumer surveys tell grocery retailers that shopping in a grocery store is amongst the least favorite things for consumers to do. These trends lead grocery operators to seek channels that bring the consumer in direct contact with food ingredients or foods without the shopper stepping into the physical store. Mechanisms to facilitate this transfer

include: phone, fax, computer, and mail order. Each medium of trade has pros and cons; however, each is striving to meet the needs of a time pressed customer. Consumer Direct has taken on the following forms:

- Peapod and Streamline offer internet shopping in partnership with local grocery chains.
- CyberMeals provides home delivered meals, ordered via internet and fax, delivered to your door.

e. Fresh Foods (including produce, meat, seafood, dairy, floral) as destination categories have gained prominence.

Today's consumer is increasingly health conscious and demanding of freshness in the foods they purchase and consume. No longer is price the dominate driving factor in the purchase decision. Health concerns of all consumers, but specifically the aging, are driving the need for fresh, safe, and reliable foods in the fresh perimeter departments. These foods have further gained importance as critical complements of a successful HMR program as consumers seek certain fresh foods to complement or complete a meal solution or HMR offering of a specific retailer. A few examples of this trend include:

- Trends in produce include: precut fruits and vegetables (a.k.a. value-added produce), organic and exotic produce, vertical cases, farmer's market merchandising, open prep areas, offering produce as a whole meal.
- Produce departments are moving to the head of the shopping pattern.
- Produce departments are increasing their allocation to value added produce.
- Branded produce may succeed as part of the value-added produce trend.
- Some stores have a signature section that feature their own private label line of produce.
- Produce is seen as the key to staving off competition from the supercenters.
- Value-added products are also a trend in the meat department.
- Meat department is also an integral part of the meal solutions strategy.
- Equipment and merchandising are seen as points of differentiation in the commodity business of meat.
- Buckeye Village Market performed a 16000 square foot renovation project in response to Wal-Mart's arrival in town. Key aspects were a focus on perishables, deli, frozen foods, milk, salad bar, organics, and special cheese section. (Progressive Grocer, 1998)
- In Charlotte, Dean and Deluca have opened three prototype stores in the past year. They are looking to compete most aggressively in the areas of fresh foods, and fresh meals. (Robertiello, 1997)
- Food Lion experimented with a Superstore concept that included a broad range of fresh bakery, perishable and deli items. (Lewis, 1997)

f. Center-of-Store increases as an area of concern and receives much attention.

With dominant consumer trends in the areas of meal solutions, HMR, and fresh ready to eat foods, grocery operators have increased concern regarding the center-store departments. The center, dry grocery offerings have historically been the “bread and butter” of the grocery store layout, but today lack the glamour and convenience of perimeter and meal solution departments. Grocery operators are concerned that consumer trends away from food ingredients to meal components will cause decreasing profitability in the center store. To counter this move, dry grocery managers are being forced to find ways to bring excitement back to the center aisles. A number of specific examples and product categories gaining prominence include:

- Ethnic foods, natural foods, and other specialty foods are receiving attention.
- Grocers are displaying specialty goods near mainstream items and placing groceries from the center store near the refrigerated, fresh, and other meal solution product areas.
- Despite an emphasis on fresh foods and food service, retailers stay committed to frozen food sales.
- The American Heart Association and American Diabetes Association have identified 60 million American s whose diet is restricted by their health conditions. In response Fred Meyer stores have a nutrition center in every one of its stores, and devotes several thousand square feet to nutrition products, placing them in the center of the store.
- King Kullen Stores in Estbury, New York liven the center of their store with natural and organic choices. A natural foods banner arches over the aisle to draw attention to these specialize products. (Lo Bosco, 1997)

g. Loyalty marketing programs take center stage.

With the proliferation of information technology, retailers are now more able than ever to identify the buying habits of all shoppers. Through the use of loyalty shopper cards, food retailers can learn important purchase decision habits of their shoppers. Information gathered from loyalty cards helps retailers direct promotions to their very best shoppers, and market to an audience of one. Furthermore, through procedures of data mining and other market research tools, retailers can learn much about a pricing decision, seasonality of items, and group consumers into buying style clusters. All of this information, if used appropriately could have great impact on product mix, inventory control, pricing, promotional activity, and more. Most retailers are experimenting with loyalty cards, but none have tapped the true potential of the information gathered through these loyalty programs.

h. Non grocery items such as HBC, Pharmacy, and Cosmetics grow in importance to supplement sagging center-of-store profits.

In addition to the specific marketing tactics being utilized in the dry grocery department in the area of foods, grocery stores continue to increase their interest in general merchandise and specialty merchandise items such as HBC, pharmacy, cosmetics, greeting cards, etc. Retailers recognize that these departments, merchandised and placed correctly can become destinations that attract a number of consumers. Specific examples of this trend would include

- More combination food and drug stores spotlighting health and beauty care.
- Cosmetics is a destination category for some retailers.
- Supermarkets are partnering with drug stores to offer “branded pharmacies” in-store.
- Other Nonfoods gaining prominence: Baby care, pet supplies, greeting cards, phone cards, light bulbs, housewares, videos books, magazines
- Destination sections are popular especially greeting cards/party goods and pets.
- Greeting cards are moving into high traffic locations, especially up front.
- Light bulb sections are increasing in size in order to win back market share.
- Baby care sections may also grow to add accessories that increase profitability, and education/information to encourage customer loyalty
- Housewares are also being reworked -- many going with a brighter, more upscale positioning.
- Video departments designed to be a destination store-within-a-store.
- Video, magazines, and books being cross-merchandised with groceries and displayed throughout the store.

2. Further Descriptive Support of Trends Identified

a. Giant Food

Giant Food, acquisition target of Ahold in May, 1998 (approval pending), was named Progressive Grocer's Retailer of the Year in 1997. According to CEO Pete Manos, "We haven't always been the first to go into new things over the years - but nobody makes a better copy." The Landover, MD based company has a philosophy of focusing more on doing things right than being the first to try new concepts.

With the exception of a 35 day crippling Teamsters strike, same store sales growth has been strong during this past year. Manos predicts that sales will eclipse \$4 Billion in the coming year. Further, the store is planning to open a total of six new stores - four in its core market of Washington D.C., and two in Pennsylvania. The move northward has been looked at closely and Giant is confident they can experience success away from home. The layout and merchandise mix is being modified for these new stores. Specifically, they will be expanding sections for Italian Foods and including kosher and Italian Products.

In addition to expansion of grocery stores northward, Giant is developing 10 to 20 free standing pharmacies for their core Washington D.C. market. Further, Giant is all ready in full swing towards designing their new year 2000 prototype. When probed as to what it might look like, Pete Manos replied, "I don't know yet. We've given our people free rein, and I've promised not to interfere until they've come up with what they think is right." He further explains, "I don't even know the square footage yet. It won't be smaller than the stores we're operating. But, I'm not sure how much larger they'll be than existing stores." However, there is a wish list in mind for new store development. Specifically, Giant will be looking to find more space for in-store bakeries and move to chain-wide in-store banking. Also HMR will have significant emphasis in the new prototype. At present Giant is prepared to experiment in the area, but admits to having no answers for the HMR puzzle.

All changes at Giant will no doubt reflect a strong emphasis on the consumer. This core strength was instilled in Giant in the 1970's when well known consumer advocate Esther Peterson was hired to make changes for Giant. She inspired: recycled paper products, low and no-phosphate household detergents, toy safety campaigns, and shatterproof soft drink bottles. Since then one of her former interns, Odonna Mathews is handing out directives such as: larger unit labels for lower shelves, shelf labels that identify sodium, fat or calorie content, candyless checkouts, and elimination of the sale of tabloid newspapers.

Source: Progressive Grocer, December 1997

b. Ukrop's

One of the nation's finest retailers of grocery products and fresh prepared foods is Ukrop's Supermarkets. As a family owned operation, Ukrop's is the largest grocery store chain in Richmond, VA where they have a 35% market share of the city's grocery sales. Ukrop's currently maintains 25 food stores, a central bakery, central kitchen, a downtown café - Ukrop's Fresh Express, a uniform shop - Ukrop's Dress Express and pharmacies in 11 stores. Furthermore, Ukrop's has in its stores the first bank in the country to be partially owned by the host grocery store.

Ukrop's has a few special features that deserve mention in this analysis. First, there is a tremendous sense of company pride and shared focus in the values of this family operated organization. Ukrop's has encouraged their associates to memorize the company mission, vision, and shared values. They have a firm belief that if employees have these words in their heads, they will more likely put these words into practice.

In addition, Ukrop's has what they call a "Values in Action" program in which they encourage employees to attend special meetings or classes where they can fill out a "Values in Action" card. These cards allow associates to recognize a fellow employee displaying a value in line with the Ukrop's vision and mission in order that that employee may be recognized. Further at the Ukrop's "Parade of Champions" held each year, Ukrop's honors, by letter or phone call, those who have been singled out for providing superior customer service.

While the employee training, recognition, and company value are of tremendous importance to Richmond's finest supermarket, Ukrop's most often receives national acclaim for their focus on fresh prepared foods. Ukrop's has instilled a number of programs for providing customers with fresh prepared foods on the go. One outstanding feature of their program is their Dinner For Two Program. Each day of the month they have a menu that shows what they will serve each day for two people. For the month of May, 1998, no dinner-for-two, which is published on their web page exceeded \$9.99. It is this focus on prepared meals and making the menu available on the internet that makes Ukrop's stand out as an outstanding retailer.

Source: www.ukrops.com

c. Eatzi's

Eatzi's, based in Dallas, Texas was established in 1996. Eatzi's was developed to capitalize almost exclusively on the home meal replacement trend sweeping the United States. As of early 1998, Eatzi's had only three stores in Dallas, Houston, and Atlanta, but these stores have caused a tremendous stir in the marketplace.

Eatzi's was launched by Phillip Ramano, as he was looking for a unique way to enter into the crowded food business. The chain was modeled after upscale grocery stores like Dean & DeLuca and Balduci's in Manhattan. These two stores sell fresh meat and quality produce along with fancy prepared dishes. In their Houston store, a customer walks right into a kitchen. The aroma of cooked food and freshly baked bread permeates the air. Classical music plays in the background. An exciting feature at an Eatzi's is that at 9:00 PM a horn blows, and all food is sold for half price.

There are no steam tables at Eatzi's; nearly all food is cooked from Chef's skillets and is made to order and to go. In addition, chef's toss salads for customers as customers are kept away from the salad bar. Reason: sanitation, and to prevent consumers from picking the bar dry of high cost products like shrimp and blackened chicken. Clearly this personalized attention and store design drive up costs. The first two Eatzi's cost \$4 million each to build, more than twice the typical Chili's restaurant cost. At the same time, Eatzi's stores are doing \$13 million in sales each year, more than 5 times a typical Chili's volume.

Eatzi's has among the most complete lines of Home Meal Replacement items of any grocery store in the industry. A quick glance through their web page details countless prepared foods including: ready to eat salad, sandwiches, hot entrees, seafood, breakfast breads and jams, packaged meals, ready to heat soups, salads, fish, poultry, dinner party items, wine, flowers, fresh pizza, wood roasted chicken and more! Equally exciting is that all foods are out on display and most meals will run the customer only \$5-\$7.

Clearly Romano has taken his time in opening new Eatzi's. Romano spent over a year studying delicatessens and grocery stores around the world before opening in Dallas. In the coming year they hope to open stores in Westbury, NY., Rockville, MD., and the basement of Macy's on Herald Square in Manhattan.

Source: www.eatzi's.com

d. Dorothy Lane Supermarkets

Dorothy Lane Supermarkets was founded on August 12, 1948 by Calvin D. Mayne and Frank Y. Sakada as a fruit stand on the corner of Dorothy Lane and Far Hills Avenue. The receipts for the first day totaled a meager \$35.00. Despite a rocky start the partners expanded their business and moved to their present location at 2710 Far Hills Avenue. Major remodeling of this store occurred in 1958, 1968, 1978, 1988, and a second store was added in 1991.

Calvin Mayne was probably one of the very best independent grocers in the United States. He traveled extensively in the country and abroad speaking to grocers and retailers about his business philosophy which he summed up by saying, "My methods are merely common sense and a deep concern for human beings. The secrets are how you price your

goods, the productivity of your personnel and how you care for their welfare, tremendous emphasis on community service and, most important of all, unceasing attention to public goodwill.”

Dorothy Lane Supermarkets maintains this feeling in the company’s mission statement that speaks of maintaining the highest standards of integrity towards customer and suppliers, anticipating and satisfying customer demands, rewarding associates, being active in the community, and providing strong customer value.

Dorothy Lane Markets does a number of fine things in grocery retailing ,but two of specific note. First is Dorothy Lane Markets School of cooking classes. The DLM school offers single session classes on Tuesdays, Wednesdays, and Thursdays at the Oakwood store. Classes are repeated morning and evening and taught by their highly trained chefs.

In addition DLM has what they call Club DLM. This club is DLM’s way of showing appreciation to their most loyal customers. This card allow DLM to focus promotions and specials on these highly valued consumers. DLM hopes to get customers to use this card to gain information about the buying habits of their shoppers as well as offering a benefit to those shoppers using the loyalty card.

Source: www.dorothylane.com

e. Stew Leonard’s

No one has ever had more fun than the people who work and shop at Stew Leonard’s in Norwalk, CT. Working at this store is like becoming part of a big happy family. Actually, 55% of the store’s 600 employees have at least one relative who also works there. Shopping this store can be more like visiting Disney’s Magic Kingdom than buying groceries. It gives the concept of retailing as entertainment a new level of meaning.

The original Stew Leonard’s opened in 1969 in Norwalk, a second store was opened in the early 1990’s in Danbury. One might think the original store is more a tourist attraction than a commercial enterprise. At first glance you see the small farm zoo outside where cows, chickens, sheep, and geese welcome all comers. The 106,000 foot complex looks like an overgrown barn after 26 additions to the original building. Further evidence of the uniqueness of this retailing outlet is the 6000 pound boulder in the entryway inscribed, “Rule 1: The customer is always right! Rule 2: If the customer is ever wrong, reread Rule 1.”

A unique store design feature at Stew Leonard’s is that there is only one aisle through the store. This means the shopper has no choice but to be tempted by the 800 or so items stocked. Shoppers also are not likely to move quickly through this store as only glass panels separate shoppers from the inside of a modern dairy, where milk moves directly from farm to dairy case. Other attractions of this store include a mechanical cow

programmed to moo, a trio of laying hens who demonstrate where eggs come from, employees who are dressed as animals and dance with children.

While there are a lot of gimmicks in this store, Stew's still does a rousing business of over 100,000 shoppers per week and an astounding \$3470/square foot of selling space, earning them a space in Guinness Book of World Records as the store with the greatest sales per unit area in the United States.

Source: Andersen Consulting, International Trends in Retailing, Fall 1991.

I. Analysis, Perspectives, and Outlook of Structural and Marketing/Strategic Changes in the Grocery Store Industry

Clearly the grocery store channel has undergone a number of significant changes in the past five to ten years. The changes outlined in previous sections are expected to continue and develop at an accelerating rate as consolidations continue and consumer demands for greater service levels grow. In addition new technologies, new innovative store designs, new product offerings, and new channels of distribution will dominate the landscape of grocery retailing in the early 21st century.

Specifically, the following changes in grocery retailing can be predicted for the period of 1998 to 2003:

- A dominating influence of “store within a store” designs to increase sales of specific categories and increase cross merchandising and bundling
- A new store redesign that moves traditional middle-of-the-store items to secondary locations and places an even greater influence on current perimeter, high margin, more consumer meal-oriented services
- A movement of physical locations of stores to meet the increasing needs of time pressed consumers
- More partnerships, alliances and contracts between grocery retailers and upstream members of the food supply channel to supply specific ingredient and meal choices for demanding consumers
- Survival of only the most consumer oriented, service driven, innovative organizations willing, prepared, and able to initiate and carry out a program that differentiates their retail organization from other grocery retailers as well as other consumer marketers in their marketplace
- Consumer Direct Models continue to proliferate the market, but do not in this short term predictive model, dominate the consumer marketplace

Each of these predictions is elaborated below.

1. A dominating influence of “store within a store” designs to increase sales of specific categories and increase cross merchandising and bundling

Research in this study and in others demonstrates the clear movement in the retailing world to develop store-within-a-store (SWS) designs. These designs create retail excitement, direct traffic flow, and can truly meet the needs of a consumer unwilling to bundle goods on their own. Retail store layouts in successful retailers in the next five years will take this store-within-a-store approach to a new and dominating level in their retailing priorities.

First, today in most innovative grocery retailers, it is not uncommon to see SWS in 4-5 different categories. We predict that the most successful retailers will have prototypes in

the next few years that are over 50% SWS. Categories that lend themselves well to this approach include: bath and body, pharmacy, books, deli, floral, bakery, meat cases, dairy sections, movie rental, organics, produce sections, greeting cards, and health and beauty.

It will be imperative that grocery marketers seek out the most successful retailers of specific products and model sections of their store to look and feel like those stores. For example, selling produce in a European Open Market setting, or selling books with wooden book shelves, carpeted reading area and with complementary coffee, and providing a waiting area with trained pharmacy specialist in the pharmacy area. This will create more excitement in the store, and make consumers feel as though the store has been catered to their specifications.

The SWS model is not one that can be taken half way. Retailers committed to this design will jump in aggressively and layout SWS changing floor patterns, lighting, fixtures, shelving, and hiring trained specialists. This will almost create an internal mini-mall feeling. This will make consumers feel as if they are shopping a series of specialty stores, not a grocery store selling general merchandise, pharmaceuticals, or traditional perimeter items.

2. A new store redesign that moves traditional middle-of-the-store items to secondary locations and places an even greater influence on current perimeter, high margin, more consumer meal-oriented services

Consumer data are clear on the issue regarding center of store products. Sales have declined precipitously in this area and consumers find little or no attractiveness in traditional ingredient supplies. The center of the store has become a mundane, cumbersome section of the store to shop. It is the endless long aisles with product and information overload that have driven consumers away from the grocery store. This feature will change in the coming years.

What consumers want to shop is an exciting layout dominated by meal solutions. This need is best met by the traditional perimeter categories: produce, deli, dairy, and meat. These sections best lend themselves to final meal offerings as opposed to their ingredient counterpart aisles. At the same time there will remain specified product offerings that segments of consumers will need to fulfill their meal needs.

The solution is a layout that direct consumers to meal solution categories and allows for quick in-and- out trips to ingredient gondolas. To facilitate, it is suggested that grocers move meal solution centers to the middle of the store with a series of shorter gondolas with ingredients collected not by product type, but by meal need configured on the periphery of the store. Further these ingredient gondolas must be labeled clearly and placed in proper proximity with meal solution centers.

3. A movement of physical locations of stores to meet the increasing needs of time pressed consumers

While trend data may show more larger stores and fewer physical locations, their data are not compatible with the most basic consumer research available. Consumers have made it very clear that they wish not to shop “big boxes” with literally thousands of SKU’s in a busy, large, time consuming marketplace environment. In stark contrast most consumers want to run in and out of a store in a matter of minutes, preferably in a location that is on the way home from a patrons place of work.

To facilitate these needs, we expect that retailers simplify store layouts, reduce floor space, minimize SKU’s, focus on consumer oriented meal-solution driven categories and departments. In addition it would be most advantageous to scatter a number of these smaller profit-center solution oriented boxes in areas that demographically meet the needs of time pressed consumers.

4. More partnerships, alliances and contracts between grocery retailers and upstream members of the food supply channel to supply specific ingredient and meal choices for demanding consumers

A dominating theme in the agri-food industries is that of consolidation and integration of both products and information transfer among different levels of the food chain. Aggressive retailers will take advantage of these relationships to differentiate themselves amongst demanding consumers. Food retailers will increasingly recognize the needs of consumers for specific products and product bundles and seek out relationships with suppliers that allow them meet those needs.

For example, consumer demands for organic products are on the rise. In order for retailers to guarantee consistent supplies of these products, there will be a need to contract with suppliers of these specialized products. Furthermore these contract arrangements will provide retailers a point of distinction when competing for the consumer dollar and attention

In addition, partnerships between retailers and manufacturers will become more critical as retailers look to manufacturers to supply product choices that are easier for retailers to merchandise and cross sell with other products in meal solution environments. Retailers are in the front lines of competition with other retailers and for consumer attention. Manufacturers will want to secure relationships with retailers by providing them with systems, products, personnel, and information that allows them to compete effectively for consumer dollars.

5. Survival of only the most consumer oriented, service driven, innovative organizations willing, prepared, and able to initiate and carry out a program that differentiates their retail organization from other grocery retailers as well as other consumer marketers in their marketplace

Grocery retailers that will survive into the next century will be those that offer significant point of marketing difference from their competition. This channel of trade, along with others in this study, are dominated by “me-too” organizations. There is a dominating trend in this industry for one firm to develop a new concept and then for the entire industry to copy the trend...adding essentially nothing new to the concept. This “copycat” trend will change for the most successful retail organizations.

Successful retailers in the next century will fully understand their specific consumer marketplace, their needs, time pressure, product desires, money constraints and layout preferences. After a thorough analysis of this consumer marketplace, retailers must design store layouts, sizes, product choice, product bundles, specials, etc. that meet these specific needs. These surviving retailers will have significant points of difference from retailers in their market area and others around the country.

To secure this, retailers need to bring a corporate environment and culture that is unique into their company. This concept needs to be translated into their store design. Consumers need to be able to identify key difference from one retailer to another. Such a corporate identity will be a key component of a successful retailer in the next century.

6. Consumer Direct Models continue to proliferate the market, but do not in this short term predictive model dominate the consumer marketplace

Consumer demand for a consumer direct model to meet their grocery needs will continue to be a growing trend in grocery retailing. At the same time, we see no definitive research or trend to support consumer direct as an overwhelming channel of distribution in the next five years. Many retailers and other third parties will move to make consumer direct a viable channel, but the current distribution system will not be in jeopardy for the next five years. It is likely, however, that consumer direct sales will continue to grow modestly during this period of time.

To that end, consumer direct will be an area that all retailers must consider, be aware of, and investigate, but will not require a dramatic shift in the brick and mortar environment of grocery retail stores.

III. Drug Store Analysis

The Drug Store Industry is not complicated with the number of different formats and classifications as seen in either grocery or mass retailing. This factor allows for a more simple presentation and discussion of both structural and marketing/strategic changes present in this industry.

At the same time, drug retailing is an industry in volatile times. These past ten years have been characterized by tremendous consolidation, acquisition, and store redesign. Most industry experts would consider the early 1990's a time of "revival" in drug retailing. During this period most store designs underwent significant face lifts, and much traditional drug retailing philosophy was cast aside in favor of thinking that was more in tune with changes in consumer needs, demographics, and competition.

This section of the paper is laid out in a simple direct fashion. In **Part A**, structural changes in the drug retailing industry will be discussed. Many numbers in this section will be aggregate, while others will be broken out by independent, chain drug, or small chain drug. Specific reference will be made to alleviate any confusion. **Part B** will summarize key statistics from points 1-9. Descriptions will be included. **Part C** will contain discussion of specific marketing, merchandising and strategic changes occurring within drug retailing as a whole. Included within this section will be three more in-depth discussions spotlighting drug retailing companies that shed greater insight to the trends previously discussed. Finally in **Part D**, analysis, perspective, and outlook into drug retailing will be shared.

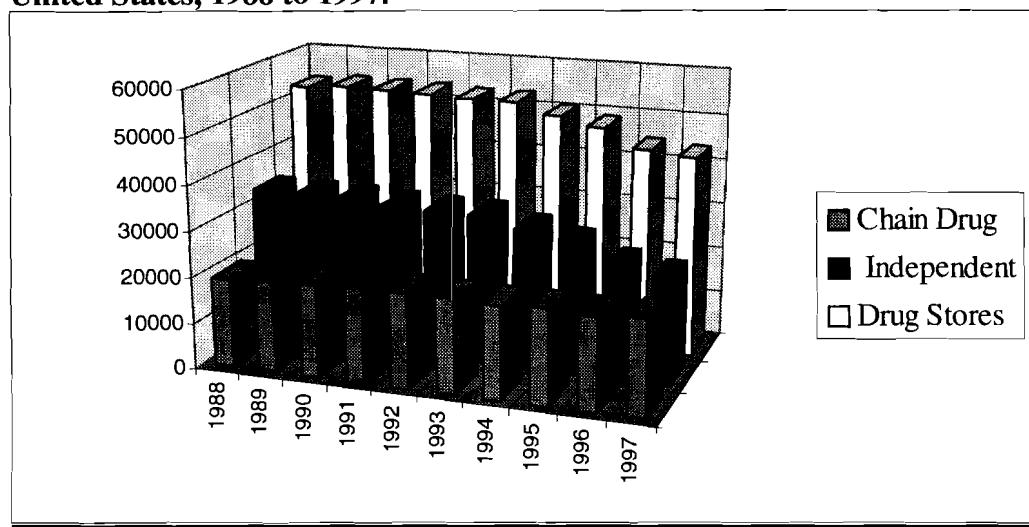
A. Structural Changes Occurring in Drug Store Formats

Numbers and data to be presented in **Part A** are for different sub-categories of drug retailing. Specific notes will be made to distinguish the specifics of each graphic. Data included: **1.** number of chain, independent, and total drug stores, **2.** drug industry sales, **3.** average drug store size, **4.** average sales per store, **5.** number of square feet in industry, **6.** sales/square feet, **7.** average volume per small chain drug store, **8.** average square feet per small drug store, **9.** number of retail pharmacies by drug, grocery, and mass retail formats. previously in **points 1-9** including sales by category for drug stores.

1. Number of Chain, Independent and Total Drug Stores in United States

The first glance at the drug store industry uncovers macro trends in terms of numbers in the most basic breakdown of stores: chain drug stores vs. independents.

Figure 16. Number of Chain Drug, Independent, and Total Drug Store Outlets in United States, 1988 to 1997.



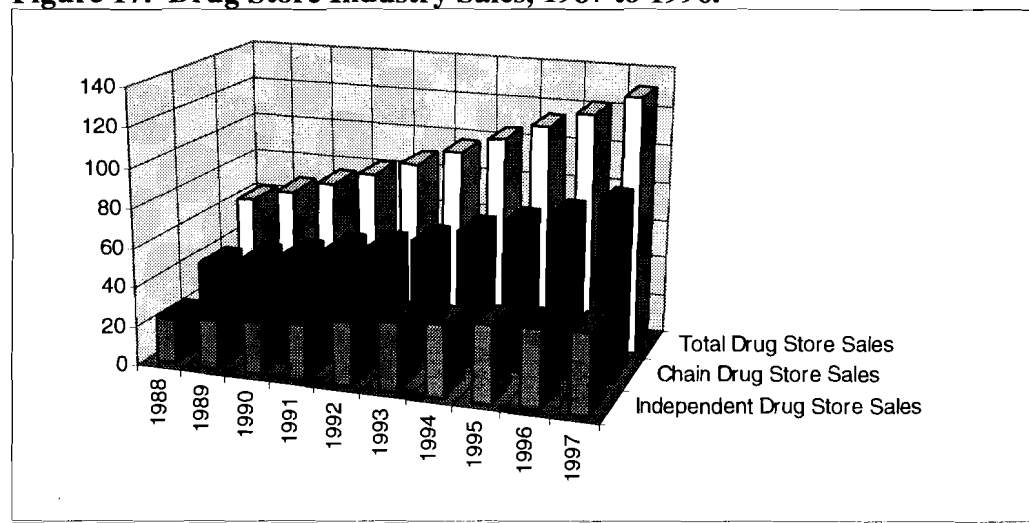
Source: Chain Drug Review, State of the Industry, Selected Issues

In the past decade there has been a steady decline in total number of drug stores in the United States. This factor, as evidenced by the graphic above can be attributed most greatly to the decline in independent drug stores. These stores have been put out of business by the larger more efficient chain stores, or replaced by newer more well-managed units. At the same time chain drug store numbers have remained nearly steady - rising slightly from 19,518 stores in 1988 to 20,543 stores in 1997.

2. Drug Industry Sales

A logical follow-up to number of stores is a look a sales growth performance in these two channels and the industry as a whole.

Figure 17. Drug Store Industry Sales, 1987 to 1996.



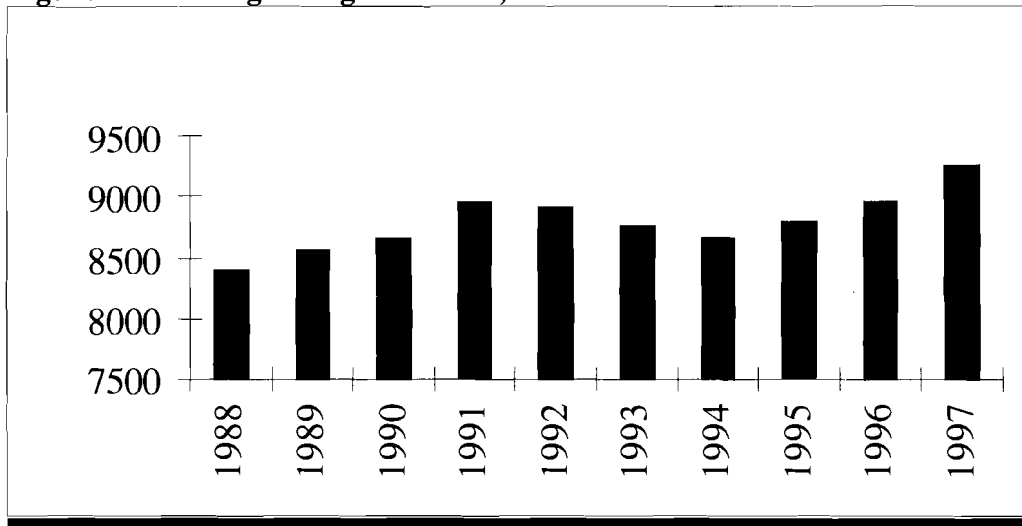
Source: Chain Drug Review, State of the Industry, Selected Issues

A more telling number in the drug store industry is total sales. While the number of independent drug stores is on the decline, their sales growth maintains a steady climb. Over this past decade, independent drug store sales have grown from \$22.9 billion to \$40.74, a near 100% increase. At the same time the industry as a whole, and chain drug stores have both more than doubled their sales, from \$61.42 Billion to \$130.15 billion and from \$38.52 billion to \$89.41 billion, respectively.

3. Average Drug Store Size

A look at the average drug store size further exposes trends in the drug retailing industry.

Figure 18. Average Drug Store Size, 1988 to 1997.



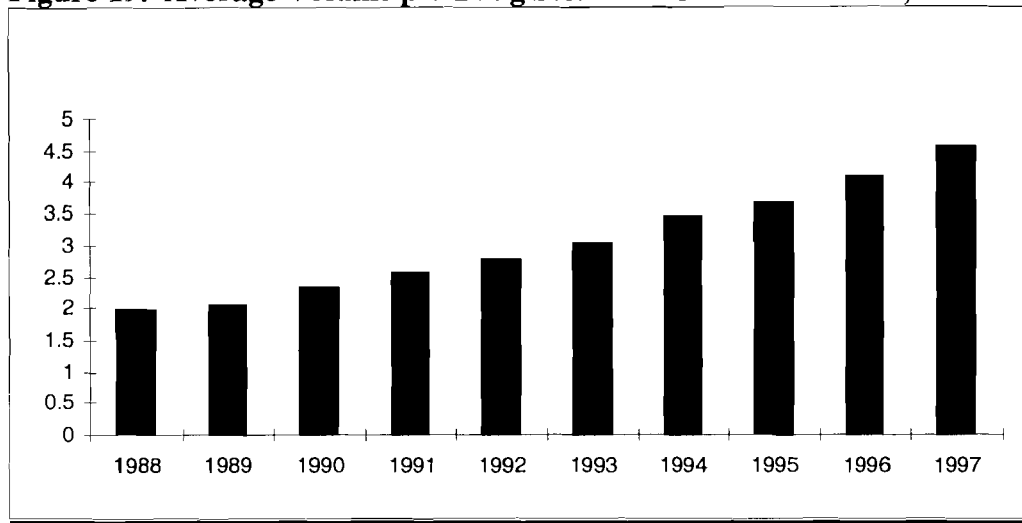
Source: Chain Drug Review, State of the Industry, Selected Issues

Drug Store operators have, as a general rule, increased the size of the stores consistently for this past decade. Store sizes have grown from 8,400 square feet in 1988 to 9,250 square feet in 1997. Much of the increases in store size can be attributed to drug stores' interest in adding convenience foods and beverages to their outlets. Additionally, a rising trend during the past five years has been the addition of pharmacy waiting areas and private patient consultation rooms that have driven up the average size of stores.

4. Average Volume per Drug Store

A look at the growth in sales per drug store on average sheds light as to the fiscal health in the industry.

Figure 19. Average Volume per Drug Store in Millions of Dollars, 1988 to 1997.



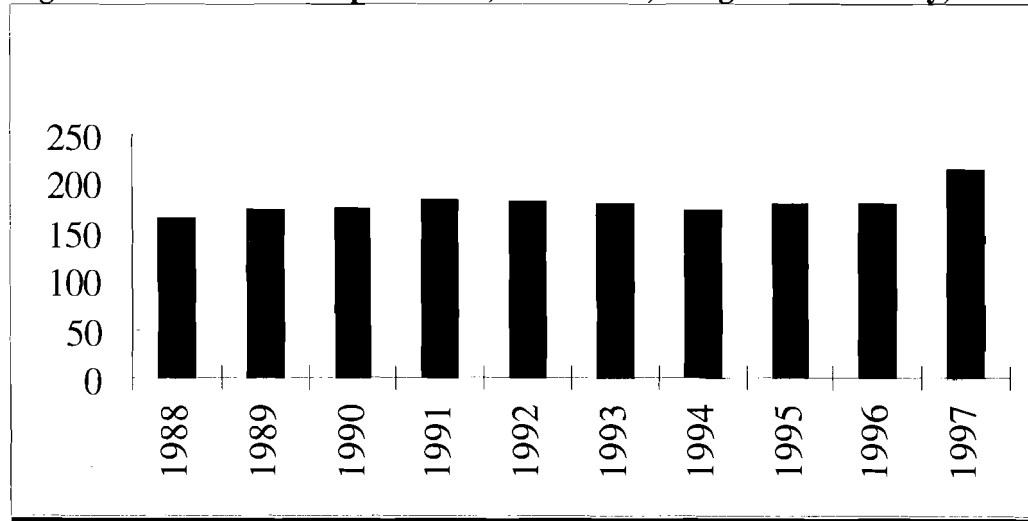
Source: Chain Drug Review, State of the Industry, Selected Issues

As is clear from the figure above, average sales/store have risen quite dramatically since 1988. In 1988 average volume per store hovered near \$1.97 million and has since grown to over \$4.5 million per store in 1997.

5. Number of Square Feet in the Industry

An analysis of the square feet allocated to the industry as a whole provides a view regarding the intensity of drug store retailing in the United States. It has all ready been shown that sales numbers have been on a rise consistently and rather dramatically in the past decade. It is important to see if the number of square feet have been on a rise as well, and if so, to what extent. This will provide an analysis as to whether this industry is overstored.

Figure 20. Number of Square Feet, in millions, Drug Store Industry, 1988 to 1997.



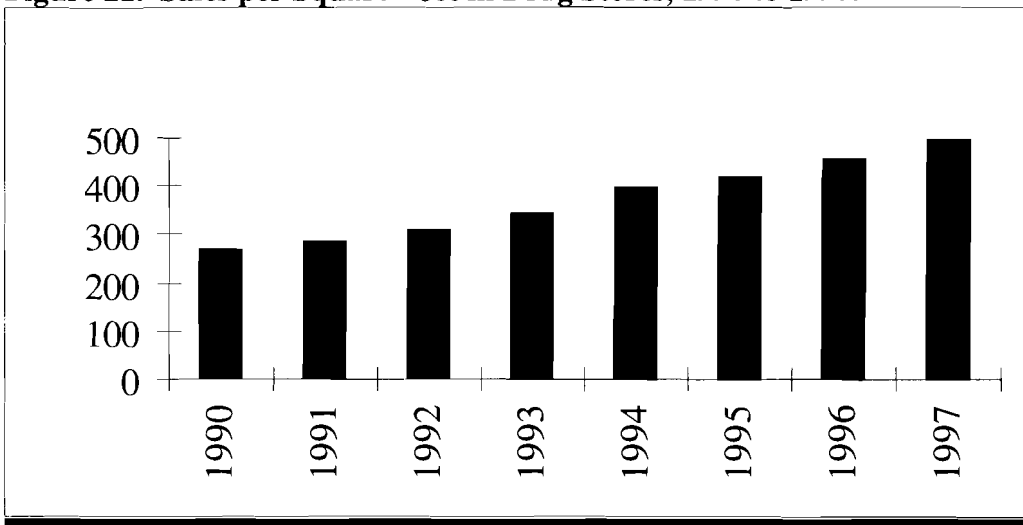
Source: Chain Drug Review, State of the Industry, Selected Issues

The addition of more stores and increases in average store size has led to consistent and rather dramatic rises in total drug store industry square footage. With the exception of the recession laden early 1990's, drug store square feet have grown consistently from 164.9 million square feet to 212.7 million square feet in 1997.

6. Sales/Square Feet in Drug Store Industry

With the dramatic increases in sales and a more mild increase in total square feet it should be clear that sale/square feet will be on the rise. However, it is useful to see graphically that rise to make comparisons and begin deciding if growth is likely to extend into the coming years.

Figure 21. Sales per Square Foot in Drug Stores, 1990 to 1997.



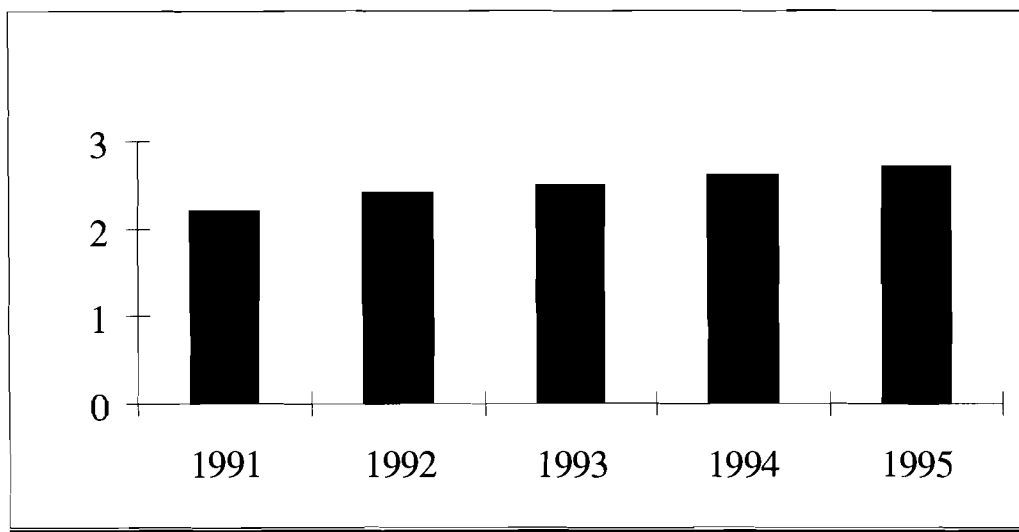
Source: Chain Drug Review, State of the Industry, Selected Issues

If there is any concern regarding the drug store industry being overstored, as might be reflected in total square feet in the industry, one need look no further than sales growth figure for the past decade. A near \$2 billion increase per year has accompanied the increases in store numbers and average store size. When spanning the decade, drug store industry sales have nearly doubled from \$22.9 Billion in 1988 to \$40.74 Billion in 1997

7. Average Volume and Square Feet per Small Chain Drug Store

It has been shown previously that volume per all drug stores is on a significant rise. A breakdown looking at small chain drug stores (a drug store that has 2 or 3 outlets under one ownership entity) will help determine where or where not that growth is stemming.

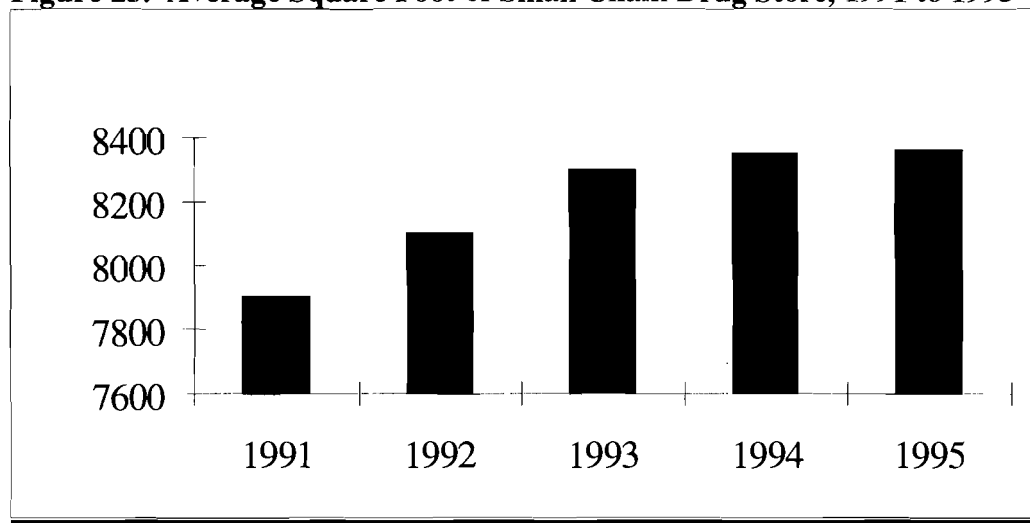
Figure 22. Average Volume, in Millions of Dollars, per Small Chain Drug Store, 1991 to 1995.



Source: Chain Drug Review, State of the Industry, Selected Issues

As should be little surprise given the total industry success in the past 5 to 10 years, average volume per small chain drug store has seen a steady rise since 1991. While other channels of trade have been less forgiving to smaller outlets in their own industry, the chain drug industry's small chain stores have grown from just over \$2 million/ outlet to near \$2.5 million in 1995. However, while this growth is significant, it does not parallel the tremendous growth in the industry as a whole seen previously, no doubt a tribute to stronger sales increase shown in chain drug stores.

Figure 23. Average Square Foot of Small Chain Drug Store, 1991 to 1995



Source: Chain Drug Review, State of the Industry, Selected Issues

Keeping pace with the trend set by all Drug Stores during the past several years, small chain drug stores have experienced growth in square feet/store since 1991. From 1991, small chain drug stores have grown from 7,850 square feet to 8,250 square feet.

8. Number of Retail Pharmacies by Different Format Type

A significant concern in the drug store industry is the proliferation of retail pharmacies in other format types, primarily food retailers and mass merchants. A look at the number of pharmacies in each of these channels as compared with those in the drug channel provides some of the first looks into channel blurring evident in retailing today.

Table 10. Number of Retail Pharmacy Outlets by Different Format Type, 1990 to 1997.

	Independent Drug	Mass Merchandiser	Food	Chain Drug
1990	31879	3484	4641	18638
1991	30503	3589	4796	18607
1992	27305	3994	4948	17806
1993	26227	4331	5424	18039
1994	24862	4559	5719	18103
1995	23112	4851	6027	18165
1996	22006	4693	6155	18523
1997	20844	4886	6293	18706

Source: Chain Drug Review, State of the Industry, Selected Issues

What is most striking about this table is the combination of significant growth in retail pharmacies in both food retailing and mass merchants combined with a dramatic decrease in retail pharmacies in independent drug stores. Drug store operators have expressed concern with the number of supermarkets and mass merchants introducing pharmacies. If this data is indicative of that trend then their concern is well founded. At the same time, it should be pointed out that most of the pharmacies lost in the drug store industry are in the lower performing independents that have likely been cannibalized either by newer larger stores or chains that have entered their marketplaces.

B. Summary Statistics for Drug Store Retailing

To provide greater depth of analysis, included are the specific data used for many of the figures above. In addition there are further breakdowns of sales by categories that will be described following these tables.

Table 11. Drug Store Number of Units, 1988 to 1997.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Drug Stores	53299	53707	53655	53406	52850	52827	50423	48558	44550	43534
Chain Drug Stores	19518	20094	20201	20493	20359	20411	19977	20336	19995	20543
Independent Drug Stores	33781	33613	33454	32913	32491	32416	30446	28222	24555	22991

Source: Chain Drug Review, State of the Industry, Selected Issues

Table 12. Drug Store Industry Statistics, 1987 to 1996.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Sales-Billions	\$61.42	\$67.59	\$74.08	\$80.97	\$88.42	\$96.51	\$105.0	\$113.5	\$121.4	\$130.2
Chain Sales-Billions	\$38.52	\$42.72	\$47.35	\$52.34	\$56.23	\$61.57	\$68.9	\$74.78	\$81.29	\$89.41
Independent Sales-Billions	\$22.9	\$24.87	\$26.73	\$28.63	\$32.19	\$34.94	\$36.12	\$38.75	\$40.11	\$40.74
Average Volume /Store-Millions	\$1.97	\$2.04	\$2.34	\$2.55	\$2.76	\$3.02	\$3.45	\$3.67	\$4.07	\$4.57
Average Store Size-Sq. Ft.	8400	8550	8650	8950	8900	8750	8650	8797	8950	9250
Average Sales/Sq. Ft.	\$234	\$249	\$270	\$285	\$310	\$345	\$399	\$418	\$455	\$494
Total Sq. Ft. In Industry-Millions	164.9	171.8	174.7	183.4	181.2	178.6	172.8	178.9	179	212.7

Source: Chain Drug Review, State of the Industry, Selected Issues

Table 13. Percentage Changes in Various Features Summarizing Chain Drug Stores, 1989 to 1997.

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Drug Stores	0.8%	0%	0.5%	1.0%	0%	-4.6%	-3.7%	-8.3%	-2.3%
Chain Drug Stores	3.0%	0.5%	1.4%	-0.7%	0.3%	-2.1%	1.8%	-1.7%	2.7%
Independent Drug Stores	-0.5%	-0.5%	-1.6%	-1.3%	-0.2%	-6.1%	-7.3%	-13%	-6.4%
Total Drug Sales	10.0%	9.6%	9.3%	9.2%	9.1%	8.8%	8.1%	7.0%	7.2%
Chain Drug Sales	10.9%	10.8%	10.5%	7.4%	9.5%	11.9%	8.5%	8.7%	10.0%
Independent Drug Sales	8.6%	7.5%	7.1%	12.4%	8.5%	3.4%	7.3%	3.5%	1.5%
Average Store Size	1.8%	1.2%	3.5%	-0.5%	-1.7%	-1.1%	1.7%	1.7%	3.4%
Average Sales/sq. ft.	6.4%	8.4%	5.6%	8.8%	11.3%	15.7%	4.8%	8.9%	10.8%

Source: Chain Drug Review, State of the Industry, Selected Issues

Table 14. Sales by Category in Millions of Dollars for Drug Stores, 1987 to 1996.

	1987	1988	1989	1990	1991	1992 ¹	1993 ¹	1994	1995	1996
Prescriptions	\$9426	\$10717	\$12189	\$13949	\$16464	\$18654	\$38000	\$41500	\$44200	\$49400
OTC/HealthCare	\$4882	\$5362	\$5948	\$6381	\$7146	\$7462	\$9727	\$8108	\$9645	\$10547
Toiletries/ Beauty Care	\$3436	\$3770	\$4134	\$4468	\$4843	\$4960	\$4701	\$5500	\$5134	\$4907
Cosmetics/Fragrances	\$1715	\$1834	\$1998	\$2122	\$2299	\$2364	\$1879	\$1781	\$1794	\$1891
GM	\$2023	\$2579	\$2801	\$2895	\$3115	\$3217	\$9798	\$13135	\$13471	\$12850
Consumables/Dry Groceries	\$1433	\$1526	\$1661	\$1762	\$1947	\$2030	\$10689	\$11227	\$10819	\$10275

Source: Chain Drug Review, State of the Industry, Selected Issues

¹Large gaps in data is a result of maintaining the integrity of the original data.

This chart exposes a few trends driving drug retailing in the 1990's. First it is clear drug store operators are placing a premium on consumables and dry groceries. General merchandise sales are up from just over \$9 Billion industry-wide in 1994 to nearly \$13 Billion by 1996. One category that receives much attention in the popular press is cosmetics. While this category may be receiving dramatic face-lifts in individual stores, the industry has yet to reap the benefits as sales have dropped in the past five years.

C. Specific Marketing and Strategic Focus in Chain Drug Store Formats

1. Identification of critical trends in Chain Drug Retailing

a. Convenience for the consumer is the key to layout.

As in other retailing channels during the past decade, convenience for the consumer has been a key, if not the most important trend in design of store and orientation of company values. Convenience in the drug store industry has meant improvements ranging from more personalized care during critical moments in the buying decision process to a more logical floor design facilitating easier traffic flow for the consumer. A few specific examples of new trends in convenience for the consumer include:

- Product adjacency is considered crucial -- beauty products must be located near each other.
- Since 1994 Arrow Prescription Centers has had in place a full blown urban initiative designed to be more accessible to minorities. For example, they have included signs in different languages. (Fried, 1998)
- Eckerd Drug Stores has stated that they must continue developing a competitive convenience strategy. According to Ed Kelly, Executive VP of Marketing and Merchandising, "Convenience is having a location that is easy to get to." (Fried, 1997)
- Product adjacencies in the areas of bath and fragrances and cosmetics as well as grouping all women health care products have been critical to store design for Kinney Drugs. (Popolillo, 1997)
- Phar Mor like countless other drug retailers has introduced 24 hour photo service and drive through pharmacies to their stores for added convenience. (Frederick, 1997)
- Phar-Mor has plans to roll out new stores with home health care products placed adjacent to the pharmacy department for convenience. (No Author, 1997)

b. Convenience food and beverage categories gaining significant prominence in drug stores.

Drug Stores have rapidly entered the race for "share of stomach" with increasing emphasis placed on food and beverage items in their stores. Drug Stores recognize their unique ability to draw customers into their stores with pharmacy and healthcare as specific destinations and are hoping to make convenience foods and beverage destinations as well. Further, drug chains recognize the increasing need to focus on the front end with pharmacy margins on the decline. Specific examples of convenience food making inroads into the drug store industry include:

- Product mix emphasizes those items often purchased during fill-in

grocery shopping trips. Drug stores seek to position themselves as a convenient “corner store” for this purpose.

- Category includes produce and frozen food in some stores.
- Some stores also offer liquor, fine cigars, and gourmet food.
- Long’s added ice cream and soda fountains in some stores; other stores have added a coffee bar and sweet shop -- today’s equivalent to soda counter.
- Health food store concept is being tested by Drug Emporium.
- Eckerd’s prototype store concept rolled out 1200 stores with food mart, dry groceries, snack foods, pre-made sandwiches, bread, etc. (Fried, 1997)
- Big A Drug Stores have implemented a full line of coolers, freezers, expanded convenience food sections, liquor and fine cigars. (Symons, 1997)
- Happy Harry’s Drug Store introduced groceries this past year and increased sales by 18.8%. “People want to be able to drive up, get in and get out without waiting in supermarket lines.” Alan Levin, President Happy Harry’s. (Kulpa, 1997)
- Phar-Mor prototype introduced a 12,000 square foot grocery. (Frederick, 1997)

c. Stores emphasize professional health care image and broaden home health care offerings.

Chain Drug Store operators have realized that health care is their niche in the crowding retail marketplace. Consumers have long trusted their local drug store to provide them with professional, courteous and correct health care recommendations. With an increasingly difficult consumer to please and a larger consumer base to serve (those over the age of 55 needing almost twice the prescriptions of those under 55), drug stores have had to stress professionalism amongst their health care providers and programs. Further, today’s consumer has a great hunger to understand their health care needs, problems, and solutions. In order to facilitate a more open transaction of this information, drug store operators have made a number of key changes in how they manage this interchange:

- Private consultation areas are found in pharmacy departments.
- Pharmacies are being redesigned with an emphasis on accessibility- the pharmacist at floor level, low counters, windows for private consultations, drive-through windows, and enhanced waiting rooms.
- Pharmacies are beginning to specialize in particular diseases such as diabetes or asthma; offering a wide selection of products designed to manage these conditions.
- Patient education is also a theme: CVS partnered with Pfizer to offer health care resource centers adjacent to the pharmacy in many stores. The center offers health risk assessment, educational and referral services, and health management programs. Eckerd provides a customer education center with information on vitamins and nutrition.
- Consumer interest in homeopathic and herbal remedies are one factor

which led to the expansion of health care sections.

- Over-the-counter medications, a destination category for drug stores, is typically positioned near the pharmacy, with the most confusing categories, such as cold and cough, positioned closest to the pharmacist.
- New categories include home health care, nutraceuticals, smoking cessation, sports medicine, and contact lens replacement.
- Shoppers Drug Mart opened a free standing Shoppers Home Health Care. This store features a full range of home medical equipment, mobility aids, beds, bathroom devices, as well as respiratory products. (Frederick, 98)
- Medic has debuted new stores in which home health care was a significant emphasis. (Frederick, 1997)
- According to Lance Clark, VP of Marketing for K&B Drug Stores states, “K&B is all ready trying to find a more focused way to present its wound care/home health care department.” (Parks, 1997)
- Medmax is on track to add three new health wellness centers by the end of July, 1997. New stores will range from 17,000 to 20,000 square feet. (Fried, 1997)

d. “Back-to-the-future” design and shopping experience reflects a return to the community pharmacy feeling.

In some instances Chain Drug Stores have felt that they may have moved from their roots as a local provider of pharmaceutical needs. Prior to many chains gaining their current size and geographic dispersion most drug chain companies felt that they really had the pulse of their local customers. Chain Drug Stores in the 90’s recognize the need to return to this type of personalized service to maintain consumer loyalty. A few examples of bringing the service and community back into the drug store include:

- According to CEO Jim LeBlanc of K&B Drug Stores, “Convenience, the ability of customers to get in and out of the store quickly, good friendly service, wide selections and depth of merchandise are all important.” Further the stores need to be neat, clean, safe, and secure. (No Author, 1997)
- White walls at Pharma Save have been replaced by warmer earth tones, trying to make more of a boutique feeling in the store. (No Author, 1997)
- Pharma Plus stores Health/Sense is a “back to future” store format that is 7,500 square feet and has the look of a specialty shop. It features a pleasant interior, has a warm and contemporary feel, approachable pharmacists, a health products assistant and a RN. (No Author, 1996)
- At Happy Harry’s Drug Store a customer service representative will actually escort customers to a counter or gondola to find products or services. (No Author, 1996)

- Phar-Mor is focusing on a warmer more appealing design. (Frederick, 1996)

To enhance the feeling of a bond between the pharmacy department and customers, Pharma Plus has introduced Pharma Answers, a comprehensive health care information program: 24 hours per day, 7 days per week access to pharmacy department. Also they have introduced better shelf signs to demystify purchases of OTC medicines. (No Author, 1996)

e. Stores feature wider aisles, lower shelf profiles, and brighter lighting preferred by consumers.

A very specific store design change in drug stores includes widening aisles, adding more lights, and lowering gondola heights to make for a more friendly shopping environment. Drug Store consumers are tired of walking through tall, tight, dimly lit aisles to shop for their convenience and health care needs. Consumers voiced their opinions strongly that they desired a more relaxed, open shopping environment. Several drug store companies responded in the following ways:

- Eckerd's has improved store layout by increasing signage that identifies product location and lowered shelving to 62 inches so the customer can see the entire store. (Fried, 1997)
- “We found that our customers like wider aisles, lower profiles, stores that are just easier to get around and shop.” Richard Cignetti, president and CEO of Kinney Drugs. (Popolillo, 1997)
- Eckerd introduces their “Cocoa Set” in which they use new signs, new color scheme, more consumer friendly, wider aisles, and lower profiles. (No Author, 1997)

f. Decrease in pharmacy profitability increases concentration on the front end.

The single largest financial restraint trend in the past decade has included the dramatic reduction in pharmacy margins. With prices as low as they can go, and margins slipping each year, drug store companies have been forced to focus much greater attention on the front of the store. Stores have begun to devote more space and attention to HBA, cosmetics, convenience foods, greeting cards and other general merchandise to name a few of the most attractive new “destination categories”. Several examples of front end categories receiving new attention include:

- New Destination categories include bath and body as well as hair color which are seen as big opportunities for drug stores.
- Genovese has introduced a larger cosmetics department, staffed by a trained associate. They also have increased their nail care selection. (Stewart, 1998)
- Cosmeceuticals, or cosmetics with pharmaceutical qualities, is a new category to watch.
- Gift department is perceived as a must in a small market. Some

stores offer jewelry and crystal.

- Cross-merchandising is increasing. For instance, placing gift wrap with categories such as photo, baby care, and gift spurs traffic in greeting cards.
- Consumer electronics and computers are carried in selected stores. London Drugs even has a private label computer brand.
- Some stores are decreasing the amount of housewares carried, while others are increasing.
- New categories offered in some stores include arts & crafts, fabric, gardening supplies, pet supplies, floral department, model trains, and sporting goods.
- Navarro Discount Pharmacies is paying special attention to the cosmetics department. (Brookman, 1997)
- Genovese executives in New York echo the sentiment that the profit picture in pharmacy is not good, but front end sales are what saved them. (Parks, 1997)
- The Brooks store in Warwick, Rhode Island has a new set for cosmetics, greeting cards, and convenience foods. Greeting cards were expanded from 100 to 130-160 feet. (Friend, 1997)
- Harco Drug Stores have undertaken some restructuring of outlets to place emphasis on OTC medicines and nutritionals in addition to ice cream. (No Author, 1997)

g. Retailers design stores-within-a-store boutiques for wellness and cosmetics and other destination categories.

No doubt the “store within a store” approach has swept all forms of retailing. Drug stores have been no slower to capitalize on this concept to highlight and group specific categories they wish to draw the attention of the consumer. By grouping specific products into usage categories and setting up a sort of a “mini-store” creates excitement and incremental sales of complementary product lines. A few examples of such retailing in the drug store industry would include:

- Items are clustered according to life stage. For example, many stores feature a teen center which highlights brands popular with teenagers.
 - Fragrance category may be featured in a boutique setting. Some stores employ full-time cosmeticians to service this department. These employees often have a special counter area.
 - Wal-Mart has even encroached on the wellness boutique area by introducing a 100 square foot wellness center called “One Source” (Fried, 1998)
 - Rite Aid stores have developed a greeting card section set off by separate lighting and carpeting that have created a store within a store feeling. (No Author, 1997)
-
- CVS is using boutiques in the areas of cosmetics and fragrances. (No Author,

1997)

- Fays had been looking at synergy's between fragrances, cosmetics and toiletries. (No Author, 1996)

h. Home healthcare superstores are being tested by some drug stores.

A new trend in drug store retailing is the notion of a Home Healthcare Superstore. The new formats have as their overriding focus the desire to serve home health needs of consumers. These stores are larger than typical drug stores and strive to carry products and provide services that allow consumers to take care of a number of their more basic health care needs right within their homes. One great example of this notion is Take Good Care. This store will be spotlighted in the section of mini-cases following the drug store trend analysis.

i. Other important store format, marketing, service or strategic trends include:

- Other concepts being tested in stores include: coffee bars, full-service beauty salons, party supply stores, optical departments, dental centers.
- Some stores sport unique departments or partnerships. For instance, Hi-School Pharmacy has Ace and True Value hardware and Ben Franklin variety departments in its stores.
- Drug store merchandise mix is often customized at the store level.
- Bank branches are being tested as another way to maximize customer convenience.
- Thirty minute film processing is being offered for shoppers to pressed for time to wait an hour.
- Video displays are becoming common in drug stores.
- New services being offered in some stores include fax, photocopy laminating, notary public, gift wrapping, postal center, lottery tickets, money orders, bill paying, pharmaceutical care counseling for a fee, portrait studios, shoe repair, wedding invitations, self service income tax machines, music rental, key duplications, insurance sales, and discount movie tickets.
- Phar Mor Chairman Robert Haft is looking for a foray into Vitamin/Nutrition store industry. There are plans to open seven vitamin superstores in D.C. Features would include: 2500 square foot vitamin supply are, homeopathic products, nutritional library, natural cosmetics, in store nutritionist, and a juice bar. (White, 1997)

2. Further Descriptive Support of Trends Identified

a. Walgreens

Walgreens is one of the fastest growing retailers in the United States. They lead the chain drugstore industry in sales and profits. Their strategy is to be the nation's most convenient - and most technologically advanced - healthcare retailer. Sales for 1997 reached \$13.4 billion, produced by 2,358 stores in 34 states and Puerto Rico. Founded in 1901, Walgreens today has 85,000 employees and 43,000 shareholders of record. Walgreens Drugstores serve 2.4 million customers daily and average \$5.5 million in annual sales per unit. That is \$542 per square foot, amongst the highest in the industry.

“Remodel. Relocate. Enter new markets. “Dense up” existing markets. Explore international opportunities.” Each of these tenets is critical to the future of the Walgreens company. While this strategy requires a heavy capital investment for expansion and technology - topping \$400 million last fiscal year, and \$500 million in 1998 - earnings are accelerating and the company remains essentially debt-free. “We’re focused on profitable growth, strong and disciplined operations, and cost cutting technology,” says President Dan Jorndt. “Not particularly fancy strategies ... but rock solid.” “Our approach differs from our major competitors,” he adds. “Most notably, we are not participating in the acquisition feeding frenzy which has gripped our industry. As *Financial World* noted, ‘There’s as much chance of Walgreens making a major acquisition as there is of Dennis Rodman joining a monastery.’ We agree.”

The Walgreens Company has long been a successful company on the cutting edge of trends in the drug retailing business. “From freestanding locations to drive through pharmacies to one-hour photo departments, Walgreens has set the 1990s trend line which others are emulating. Approximately 1,400 stores are now freestanding...900 have drive-thru’s...and one-hour photo is now chain-wide.” Walgreens is looking to add or relocate some 1000 units in three years, bringing store totals to near 3000. While Walgreens is nearing a century old, the average age of their stores fell to 7.3 years during 1997 and will be just 5.7 years by the end of the century.

The Walgreens strategy is focused on convenience: “how fast people get into the store, or served in the drive-thru pharmacy...how fast they get out...how easily they find what they came to buy...how well we remind them of what they’re forgetting to buy.” To accomplish this objective Walgreens can tout the following statistics: 450 24-hour stores, touch tone prescription refills, flu shots and childhood immunizations, osteoporosis screening, 700 ATM cash machines, phone cards, clerk served cosmetics, photo departments, rebate booklets, week-long ad prices...all designed to give customers back that most valuable commodity: time.

“Another example? Food departments. This year a major grocery chain cited drug stores as a reason behind disappointing sales gains: “Fill-in shopping needs,” said the grocery

CEO, are increasingly being satisfied in convenience and drug stores.” Walgreens, with highly convenient, on-the-way-home locations, is on the receiving end of this trend. “Milk and bread are amongst the drumbeats of our business,” emphasizes Dan Jorndt. “They forge that all-important path between home and store.”

“We tend to look at a map and see where we aren’t rather than where we are,” says chairman Charles R. Walgreen III. “Even as the most ‘national’ of drug chains, there are so many people that we are not serving.”

New market expansion takes fortitude. Walgreens is not afraid to take on a highly competitive market...and stay with it when the going gets tough. While Las Vegas and Dallas achieved early success, with many stores making money in their first year, others - such as Indianapolis, California’s Central Valley and Cleveland - have turned the corner to profitability only after four or more years.

“The baby boom generation born between 1946 and 1964 is hitting middle age in full stride. Twice as many Americans were born in 1955 as in 1935. Between now and the year 2030, the proportion of people over 65 will almost double.”

“The implications for healthcare - including drugstores - are dramatic. Today the average number of prescriptions filled in a Walgreen pharmacy is approximately 250 per day, highest in the industry. Walgreens believes this average will climb to more than 400 per day, propelled by graying Americans who take twice as many prescription per year as the rest of the population.”

“But as prescription sales rise, managed healthcare continues to drive profit margins down. More than 75% of Walgreen prescriptions are paid by a third party versus cash at the pharmacy counter. Despite the refusal of Walgreens and other major drugstore retailers to accept plans with unprofitable reimbursement levels, third party margins continue to be pressured. At Walgreens, improved operations in the rest of the store help offset the decline.”

Source: Excerpts taken from the Walgreens 1997 Annual Report.

b. Pharma Plus

Pharma Plus, located in Richmond Hill, Ontario is extending the “horizons of chain drug retailing.” Pharma Plus launched its first store under the Health/Sense banner in mid 1996. This new store concept came with a wide range of new store features including: wide aisles, curved fragrance fixtures with testers for every products, a “health well” information center staffed by a registered nurse, and a wide ranging merchandise mix. Pharma Plus president, Rochelle Stenzler said, “It is a revolutionary prescription, health, and cosmetics center.” This new concept has a strong emphasis on nontraditional remedies and health food. This new store took 20 months to design and was based on extensive consumer research.

The major focus of this new store design that certainly reflects the emerging needs of consumers, is the “Health Well”, a semicircular floor to ceiling fixture. At the site, consumers can get free home brochures, test their blood pressure, get a cup of bottled water, or take a look at the health video rental library. The well is staffed by a health product assistant to address any questions or health concerns.

In addition homeopathic medicines, herbal remedies, nutritional supplements, and health foods are displayed prominently in the center aisle. Further the store features over 160 fragrances. There is also a full-time cosmetic consultant on duty to provide information. Health/Sense stresses value to the customer. Also, they work to make the shopping experience more efficient by widening the aisles, adding a public bathroom with diaper changing station, and developing an effective checkout design.

Source: Chain Drug Review

c. Take Good Care

Take Good Care has helped to pioneer a new concept in Drug Store retailing - the Home Health Superstore. Take Good Care is looking to make shopping for health care needs less cumbersome and more shopper friendly. This store is targeted at consumers of all ages and has merchandise such as wheelchairs, breast pumps, vitamins, homeopathic remedies, personal care products, and books and videotapes.

Take Good Care chose to take a holistic approach to healthcare. This store is distinguished by both its stylish design and department store atmosphere and by its positioning as a category killer. To aid in the right atmosphere, Take Good Care gave their store a “soft, residential ambiance.” The use of carpeting, accent lighting, and wood make the store appear more inviting. The interior of these remodeled stores has an open and quadrant styled layout with wide main aisles. To cater to those customers in wheelchairs, Take Good Care installed checkouts no taller than 30 inches.

Take Good Care is the first health care superstore in the northeast and is optimistic about expansion plans. They hope to open more than 30 stores within the next five years.

D. Analysis and Discussion of Structural and Marketing/Strategic Changes in Drug Retailing.

Drug Retailing has been in a phase of dramatic revitalization during the early and mid 1990's. This trend will continue as the shake out of leading drug retailers continues to unfold. The best retailers continue to get bigger, more sophisticated, and increasingly customer driven. These stores recognize that the business model that drove their structure, product mix, and strategies in the 1980's will no longer be successful as other retailing format encroach on turf that was formerly theirs alone.

Specifically, the following major trends in drug retailing appear evident in the next five years:

- The continuing decline of pharmacy margins drives drug retailers to employ product diversification strategies to ensure long term success
- Consolidation of drug retailers continues as larger more customer driven organizations swallow firms either entrenched in dated marketing philosophies or too small to capitalize on economies of scale in both capital improvements and geographic expansion
- “Me-Too” retailing will become less and less prevalent among the very best drug retailers
- Store layout will take on an increasingly customer driven focus
- “Home Health Care and Wellness” dominates the drug retailer theme as they attempt to capitalize on this remaining point of difference

Each of these predictions are elaborated below.

1. The continuing decline of pharmacy margins drives drug retailers to employ product diversification strategies to ensure long term success

Drug retailers historically could rely upon pharmacy margins to compensate for other departments that suffered low growth and low profitability. This policy allowed drug retailers to be less efficient in their floor space allocation and less creative in their store design. In the 1990's drug retailers have seen their pharmacy margins erode and competition in this formally sacred niche grow from other channels of trade. This trend has and will continue to dominate the internal workings of all drug retailers.

Specifically, these companies may be expected to diversify their product mixes to find new areas that attract and retain customer interest and drive earnings growth. Drug stores will increasingly look to such destination categories as greeting cards, convenience foods, cosmetics, photo departments, and health foods to attract consumers. There will be a dramatic shift of focus both in terms of financial/marketing management and space allocation in stores. These stores will continue to devote more space to front end destination categories and give them more lucrative real estate from which to be merchandised.

This broadening of product lines will begin to identify drug stores as purveyors of more than merely pharmaceutical products and supporting items. This broadening of product lines should help to sustain long term growth, maintain consumer interest in their store, and drive future earnings. In addition, specific drug retailers will be able to establish an identity based on the specific front end items of focus that may be different from the focus of others in the industry. This will help to create a more highly differentiated market that is more exciting to all consumers.

2. Consolidation of drug retailers continues as larger more customer driven organization swallow firms either entrenched in dated marketing philosophies or too small to capitalize on economies of scale in both capital improvements and geographic expansion

A dominating theme in the drug retail marketplace in the late 1980's and early 1990's has been the dramatic escalation of mergers and acquisitions of major drug retailing companies. This has resulted in a more consolidated marketplace of mega-retailers. These firms economies of scale can be devastating when compared to their smaller counterparts. The benefits of larger organizations, if managed properly, are well documented.

We project that consolidation will occur in great numbers in the next 5 years. Survivors of this onslaught will be large, service driven, highly capitalized, sophisticated, unique providers of drug retailing services. This change brings about dramatic implications for consumers and manufacturers alike. How this will ultimately develop is beyond the scope of this report, but all partners of these large companies should think strategically about relationships with the new mega-retailers whose buying power and market importance will only get larger.

3. "Me-Too" retailing will become less and less prevalent among the very best drug retailers

The 1990's has been an era dominated by "me-too" marketing in the drug retailing arena. Description of marketing and strategic options of drug retailers are quite similar from company to company and from store to store. Few original marketing, design, or strategic plans have been developed in this decade, and those that have are rapidly mimicked by all others with the know how to copy.

In the next five years, the competitive landscape will be such that this will no longer be possible. Drug stores will be forced to develop an identity for themselves. Store layout, product mix, service priorities, special promotions, and company cultures will have to become unique enough that even consumers can rapidly articulate the core competence and sustainable competitive advantage of each store in their market.

To make this a reality, look for drug retailers to think more broadly about product options. Further, drug retailers will look to other channels of trade for design options and

marketing techniques. It has been clear that drug retailing is not as sophisticated in consumer marketing as their grocery counterparts. Look for strategic alliances between drug and grocery stores to share information, techniques, and possibly consumer information for the betterment of both organizations.

If drug stores do not become more unique, they will rapidly be replaced by those who do or other channels of trade able to offer products once the domain of the drug retailing market.

4. Store layout will take on an increasingly customer driven focus

Customers have made clear their disdain for impersonal, difficult to navigate, time consuming stores. To rectify this orientation drug retailers have shifted from stocking stores with a production mentality to laying out store designs more with the consumer in mind. Movement in this area in the past five to eight years has been well documented in the popular press.

Likely changes in the coming years include moves to placing categories in adjacencies that are increasing logical to consumer purchase patterns and bundling products into store within a store formats designed around purchase themes. An example of this might include placing all products revolving around a camping trip in one area in the store as opposed to making a consumer walk the entire store to get first aid items, sun care items, dinner ware, batteries, cooking supplies, etc. Such bundling of appropriate items will become a significant point of difference for a drug retail organization.

In addition the staffing of drug stores will become more and more important. Consumers coming to a drug store are looking for care givers, not just a person to dispense prescriptions or affiliated materials. This need creates the necessity for drug retailers to hire and train personnel with special characteristics in nurturing, information dissemination, and sound home health care advice. Those stores that can find qualified people to address specific consumer needs in this area of care will be the most successful in the new century.

5. “Home Health Care and Wellness” dominates the drug retailer theme as they attempt to capitalize on this remaining point of difference

Drug stores in the coming years will have no choice but to change their orientation from merely dispensing health care products to articulating health care solutions for the home. The aging of the population makes this an imperative change in all facets of a drug store’s business. Areas that will be effected include store layout, store personnel, product selection, information management, and consumer education.

Today’s aging population recognizes the need to maintain and watch its health. At the same time this aging populous is not one to be passive about its health care. To serve these needs, retailers must provide sound recommendations, in a timely fashion, and

describe them in a manner that allows these aging people to care for themselves at home, thus maintaining a degree of their independence.

Specific examples that seem important to this will be hiring personnel (trained nurses and medical technicians) to address the needs and concern of all patrons, supplying products that allow simple health care to be administered in homes, making these services more prominent in the store, making a specific lobby or enclosed office where customers can speak with a trained employee about health care needs, and making the pharmacists more readily accessible to the consumer to answer any questions they might have.

IV. Mass Retailer Format Analysis

The mass retail channel is one characterized by a plethora of format types, definitions, and merchandising strategies that in many cases defy simple classification. At the same time, it is an industry dominated by a few select giants: Wal-Mart, Kmart, and Target. Due to this tremendous concentration, these retailers structural, marketing and strategic emphasis will weigh heavily on this section's analysis. At the same time, discussion will include the unique and useful trends and tactics displayed by other members of this channel.

Mass retailing giants and other players have had to adapt to considerable forces both inside and outside their industry. To be most successful a number of major players have focused attention on stealing market share from other retail channels such as grocery and drug store with the addition of new departments, increased services, and better quality. This aggressive nature is evidenced clearly in a number of structural, marketing and strategic changes discussed in this section.

In **Part A** of section IV, we have looked to provide many of the same summary statistics as are available in grocery and drug retailing. While the statistics have been collected, there are a number of instances when the data are specific to specialized segments within mass retailing. In other cases the data is quite aggregate and may reflect trends that seem confusing when all channels are summed. This report strives to clarify this confusion and sort out data into useful categorizations where possible. Notes will be presented to illustrate what facts are being described. In **Part B**, summary statistics will be given including: size/new unit, sales/new unit, transaction amounts, categorical breakdowns, department areas, department sales/square feet, supercenter sales, supercenter units, wholesale club sales and units, combination drug store units, combination drug store sales, combination supermarket sales, and combination supermarket units. Important discussion has been included on most summary statistic tables. In **Part C**, discussion will revolve around the detailed descriptions of marketing, merchandising, and strategic trends in mass retailing. This section will include greater descriptive examples in Mass Retailing, including a number of the largest warehouse clubs. (These descriptions will be the major source of information on the warehouse channel in this study.) Last, in **Part D**, we provide analysis, perspectives, and outlook into mass retailing.

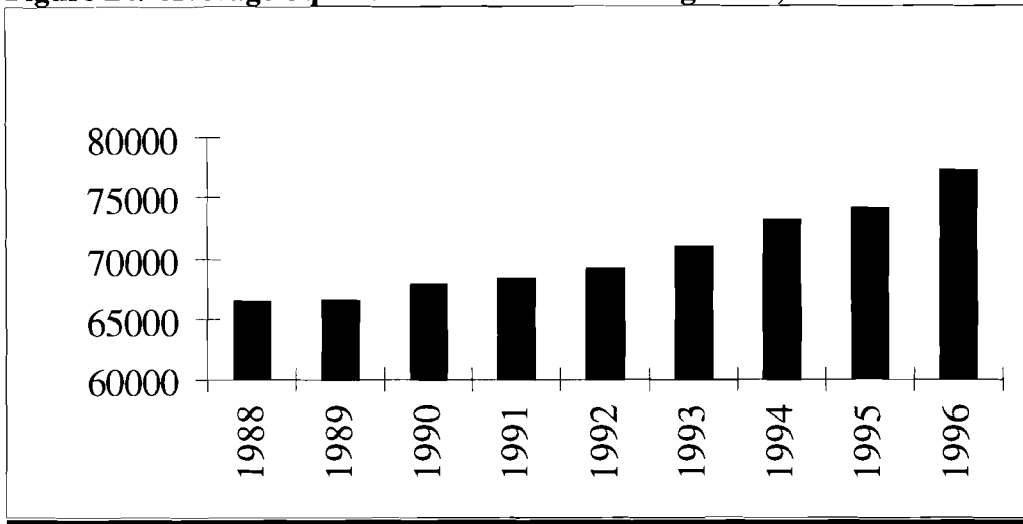
A. Structural Changes Occurring in Discount and Mass Merchandiser Formats

In **Part A** Structural Changes will be illustrated for the entire mass and discount retailing channel. Numbers are both aggregate and specific to sub-channels through **Part A**. Clarification will be provided to help in understanding information provided. Data included: **1.** average square feet in mass retailing stores, **2.** average sales per square feet of selling space in all discount retailing, **3.** mass retailing industry sales - total and by sub-category

1. Average Square Foot in Mass Retailing Stores

The analysis of mass retail formats begins with average square foot per mass retail store.

Figure 24. Average Square Foot in Mass Retailing Store, 1988 to 1996.



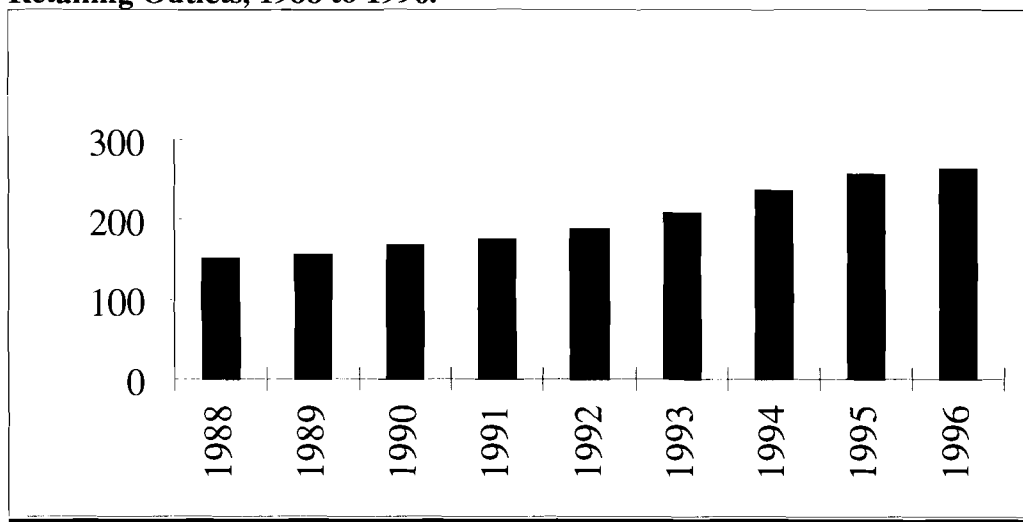
Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

The mass retailing industry experienced steady growth in average store size during this past decade. From 65,011 square feet in 1988, stores have expanded to 77,264 in 1996. The proliferation of supercenters and the inclusion of food departments in many of these stores has contributed to this growth. In addition, Wal-Mart stores, the dominate new store of the past decade introduces new stores that average over 100,000 square feet.

2. Average Sales per Square Foot of Selling Space in all Discount Retailing outlets

Analysis of discount retailing gains greater depth by looking at Average sales/square foot.

Figure 25. Average Sales per Square Foot of Selling Space across all Discount Retailing Outlets, 1988 to 1996.



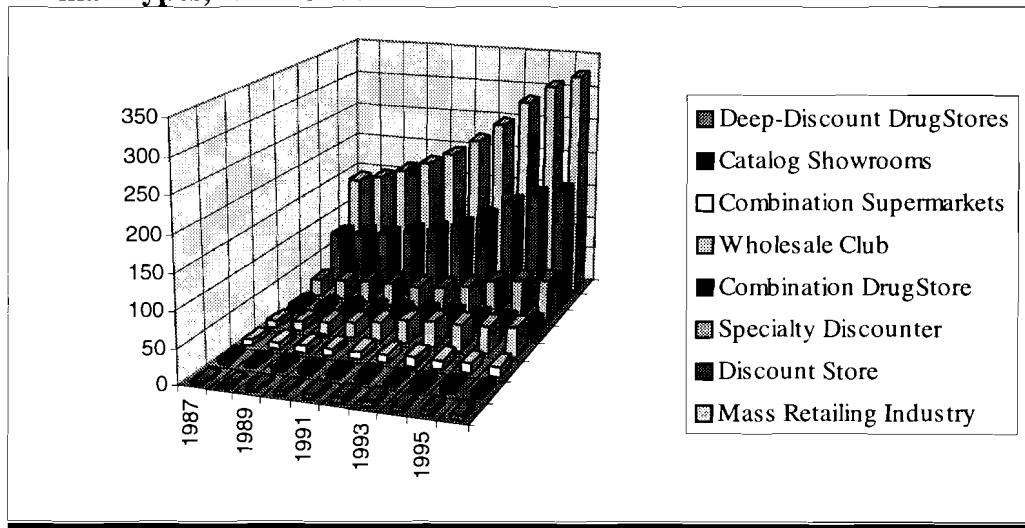
Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

Sales per square feet of selling space has steadily increased from 1988 to 1996. In 1988 sales/square feet of selling area was \$146.04. In 1996 that number had grown to \$261.87. The increases can be attributed to merchandise that yields more dollars per area such as specialty general merchandise items, HBC, cosmetics, and certain food items.

3. Total Sales of Mass retailing Formats

Illustrated in the following figure are sales per format for each year since 1987.

Figure 26. Mass Retailing Industry Sales in Billions of Dollars, Broken Down by Format Types, 1987 to 1996.



Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

B. Summary Statistics in Discount and Mass Merchandising

To clarify a number of features in Discount Merchandising, the following tables exposes trends in several critical macro factors.

Table 15. Sales in Billions of Dollars per Specific Mass Retailing Channel, 1987 to 1996.

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Discount Store	\$74.6	\$77.6	\$81.1	\$88.1	\$95	\$106.2	\$122	\$146.1	\$161.9	\$171.9
Specialty Discounter	\$25.9	\$27.1	\$30.2	\$31.1	\$31.8	\$33.7	\$40.5	\$51.2	\$57.3	\$61.6
Wholesale Club	\$10.7	\$14	\$17.5	\$21.7	\$26.8	\$33.1	\$36.6	\$37.8	\$39.5	\$41.9
Combination DrugStore	\$11.3	\$12.4	\$13.4	\$14.7	\$17.5	\$19.5	\$20.6	\$20.7	\$20.9	\$21.6
Combination Supermarket	\$8.1	\$8.7	\$9.5	\$10.2	\$10.7	\$11.6	\$12.2	\$13.4	\$13.9	\$14.4
Deep-Discount Drug Store	\$2.6	\$3.4	\$4.5	\$5.4	\$7	\$7.6	\$7.7	\$7	\$7.1	\$7.2
Catalog Showroom	\$7.6	\$5.1	\$5.2	\$5.3	\$5.3	\$5.5	\$5.6	\$6.1	\$6.3	\$6.4
Total Mass Retailing	\$140.8	\$148.3	\$161.4	\$176.5	\$194.1	\$217.2	\$245.2	\$282.3	\$306.9	\$325

Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

Sales trends in all mass retailing outlets are very consistent, showing significant sales increases in each year for the past decade. Channels of trade showing the most dramatic areas of growth include discount stores growing by nearly \$100 billion dollars in the past decade, and wholesale clubs nearly quadrupling sales in since 1988, although slowing dramatically since 1993. At the same time catalog showrooms have actually dropped in sales since 1988 as consumers shift to other channels to find their products. Last the deep discount drug channel has reached a level of stagnation if not decline in the past 6 years.

Table 16. Statistics for Discount Merchandisers, 1987 to 1996.

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Size/Unit	65011	66402	66502	67679	68319	69009	70856	73987	73983	77264
Size/New Unit	63124	64545	66189	69493	74762	75314	86279	100663	112575	104118
Sales Area/Unit	54365	55514	55995	58866	57593	59244	61078	62988	63884	66717
Sales Area/New Unit	53655	54798	56194	58374	63248	63849	73337	87677	98040	90270
Sales/Sq. Ft. - All Stores	\$146.04	\$149.88	\$153.94	\$168.35	\$174.78	\$187.47	\$206.47	\$236.04	\$254.45	\$261.87
Sales/Sq. Ft. - New Stores	\$141.29	\$144.97	\$146.44	\$149.32	\$150.01	\$152.22	\$157.46	\$320.46	\$334.02	\$386.57
Number of Units	9402	9332	9406	9197	9437	9562	9677	9829	9962	9839
Number of New Units	291	262	452	385	526	360	477	442	569	674
Ave. Transaction All Stores	\$16.08	\$16.71	\$17.12	\$18.78	\$19.49	\$20.83	\$22.15	\$25.03	\$26.40	\$27.92
Ave. Transaction New Stores	\$16.08	\$16.26	\$16.66	\$17.49	\$18.76	\$19.1	\$22	\$38.05	\$42.02	\$43.27

Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

A number of trends are exposed in the data above. First, while size per unit has increased from 65,000 to 77,000 since 1989, the size of a new store has exploded from 63,000 to 104,000. This trend to larger stores will no doubt raise the average store size more dramatically in years to come. This same trend is paralleled in sales area of all stores vs. sales area in new stores. An equally dramatic comparison is the sales/square feet in all stores vs. sales/square feet in new stores. These figures were nearly the same in 1987, but have separated dramatically over the past decade to \$261.87 in all stores vs. \$386.57 in new stores. This is clearly a reflection of better merchandising strategies in new discount store formats. These differences will be described more fully in the next section of this report. Also, due to different merchandise mixes the average transactions vary as dramatically between new stores and all stores.

Table 17. Category Sales in Millions of Dollars and Percentages of total Sales in Discount Merchandisers, 1987 to 1996.

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Apparel	\$24380 32.66%	\$25367 32.67%	\$26456 32.63%	\$28766 32.67%	\$29466 31.02%	\$32944 31.02%	\$37623 30.83%	\$39898 29.02%	\$42738 28.61%	\$45061 28.7%
Hardlines	\$17901 23.98%	\$19039 24.52%	\$19864 24.5%	\$21572 24.5%	\$24726 26.03%	\$27655 26.04%	\$31668 25.95%	\$35899 26.11%	\$39001 26.1%	\$40970 26.08%

Cleaners	- -	- -	- -	- -	\$2935 3.09%	\$3292 3.1%	\$3807 3.12%	\$4359 3.17%	\$4751 3.18%	\$4971 3.77%
Leisure Goods	\$13198 17.68%	\$13767 17.73%	\$14367 17.72%	\$15629 17.75%	\$16177 17.03%	\$18075 17.02%	\$20746 17%	\$23614 17.18%	\$25773 17.25%	\$27117 17.26%
Variety	\$5046 6.76%	\$5296 6.82%	\$5505 6.79%	\$5987 6.8%	\$8872 9.34%	\$9930 9.35%	\$11642 9.54%	\$13995 10.18%	\$15407 10.31%	\$16215 10.32%
HBC	- -	- -	- -	- -	\$5310 5.59%	\$5947 5.6%	\$7317 6%	\$8276 6.02%	\$9030 6.04%	\$9474 6.03%
Prescription	- -	- -	- -	- -	\$1425 1.5%	\$1593 1.5%	\$1903 1.56%	\$2417 1.76%	\$2683 1.8%	\$2860 1.82%
Cosmetics	- -	- -	- -	- -	\$1349 1.42%	\$1508 1.42%	\$1299 1.06%	\$1484 1.08%	\$1609 1.08%	\$1656 1.05%
Home Fashions	- -	- -	- -	- -	\$5994 6.31%	\$6701 6.31%	\$7725 6.33%	\$8964 6.52%	\$9788 6.55%	\$10236 6.51%
Misc.	\$3620 4.85%	\$3176 4.09%	\$3292 4.06%	- -	\$1672 1.76%	\$1848 1.74%	\$2111 1.73%	\$2928 2.13%	\$3375 2.26%	\$3530 2.25%
Food Volume	-	-	-	-	-	-	-	\$8662	\$12527	\$14781

Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

Listed above are a number of details regarding specific departments sales changes and percentages of sale in the past decade. While there are significant changes in certain departments (hardlines, variety, cosmetics), the most notable factor from this data is the fact that food volume has burst onto the scene in the past 4-5 years and is making serious in-roads into the mass retailing marketplace. While this food volume has not been included in the percentage breakdown, a comparison can be made with other departments. In only three years of data collection, food volume has surpassed home fashions, cosmetics, prescriptions, and cleaners in terms of total sales.

Table 18. Square Feet Allocated to Various Departments in Discount Merchandiser Formats, 1987 to 1996.

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Women's Wear	6454	6590	6647	6767	6859	7056	7268	7489	7575	7913
Home Fashions	3976	4058	4099	4180	4233	4354	4495	4642	4730	4937
Men's Wear	3675	3753	3785	3832	3888	4005	4141	4258	4304	4497
Housewares	2758	2815	2839	2883	2914	3004	3103	3199	3254	3396
Sporting	2239	2287	2307	2343	2373	2441	2516	2601	2652	2775
Drug & Cosmetics	1962	2021	2021	2059	2085	2145	2223	2297	2333	2435
Automotive	1980	2004	2038	2070	2096	2150	2162	2247	2265	2362
Toys	1934	1976	1988	2019	2039	2097	2162	2230	2235	2335
Shoes	1813	1849	1865	1894	1912	1967	1975	2003	2010	2095
Lawn & Garden	1702	1738	1753	1763	1785	1836	1893	1953	1982	2075
Boys Wear	1600	1632	1646	1670	1693	1742	1796	1854	1863	1948
Infants Wear	1473	1504	1523	1552	1578	1623	1680	1719	1746	1821
Girls Wear	1333	1360	1372	1399	1417	1467	1490	1524	1548	1614
Stationary/Greeting Cards	1148	1171	1181	1201	1221	1262	1344	1397	1440	1508
Hardware	1204	1227	1237	1240	1256	1292	1331	1386	1405	1468
Food/Beverage	na	na	na	na	na	na	1014	1298	1341	1408
Consumer Electronics	763	777	784	796	806	829	855	880	902	941
Paint and Wallpaper	787	805	812	825	835	859	860	873	886	921
Accessories	683	700	706	717	726	752	775	788	798	827
Jewelry	661	677	683	694	703	723	839	768	777	814
RTA Furniture	359	650	661	677	691	711	732	765	773	807
Traffic Appliances	605	616	622	631	639	657	675	707	710	734
CDs/Tapes	526	538	543	552	559	575	592	648	677	707
Hosiery	507	516	521	534	541	557	569	583	586	614
Giftware	509	522	526	535	536	545	550	558	570	594
Photogoods	386	394	398	404	409	421	434	447	461	480

Candy	380	389	392	398	403	415	428	443	445	474
Luggage	382	388	391	397	397	397	398	418	405	413
Pet Supplies	229	239	241	245	248	255	269	290	306	333
Books/Mags.	120	122	123	125	127	130	139	159	161	168
Tobacco	90	94	90	90	92	90	90	90	89	93

Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

Table 19. Sales/Square Foot in Discount Merchandiser Stores, 1987 to 1990.

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Prescription	\$1311	\$1429	\$1442	\$1514	\$1638	\$1769	\$1901	\$2086	\$2138	\$2186
Tobacco	\$1041	\$1044	\$1111	\$1210	\$1225	\$1382	\$1415	\$1554	\$1585	\$1580
Books/Mags.	\$443	\$457	\$463	\$506	\$538	\$581	\$617	\$713	\$761	\$770
Photogoods	\$448	\$460	\$472	\$517	\$527	\$565	\$625	\$694	\$738	\$758
Candy	\$410	\$424	\$435	\$478	\$497	\$533	\$598	\$663	\$723	\$720
Consumer Electronics	\$408	\$436	\$446	\$490	\$489	\$521	\$566	\$614	\$647	\$660
Traffic Appliances	\$316	\$329	\$337	\$370	\$395	\$426	\$473	\$504	\$539	\$548
CDs/tapes	\$332	\$328	\$336	\$369	\$360	\$388	\$441	\$474	\$499	\$510
Drugs and Cosmetics	\$318	\$329	\$341	\$373	\$408	\$441	\$401	\$432	\$457	\$584
Pet Supplies	\$180	\$188	\$193	\$215	\$219	\$240	\$267	\$340	\$409	\$397
Hardware	\$211	\$211	\$217	\$241	\$298	\$319	\$352	\$376	\$401	\$410
Jewelry	\$240	\$247	\$252	\$276	\$286	\$309	\$334	\$359	\$380	\$385
Cleaners	na	na	na	na	na	na	\$327	\$344	\$369	\$390
Stationary/Greeting Cards	\$204	\$212	\$218	\$239	\$247	\$264	\$293	\$339	\$361	\$370
Hosiery	\$238	\$243	\$251	\$274	\$279	\$299	\$330	\$343	\$359	\$364
Toys	\$220	\$227	\$234	\$256	\$252	\$271	\$297	\$315	\$332	\$339
Food/Beverage	na	na	na	na	na	na	\$336	\$310	\$330	\$336
Automotive	\$174	\$178	\$182	\$252	\$206	\$222	\$246	\$257	\$270	\$276
RTA Furniture	\$128	\$136	\$141	\$154	\$176	\$189	\$205	\$250	\$267	\$273

Housewares	\$156	\$160	\$165	\$181	\$282	\$189	\$340	\$444	\$238	\$242
Menswear	\$148	\$153	\$156	\$171	\$176	\$189	\$216	\$213	\$230	\$236
Home Fashions	na	na	na	na	\$150	\$161	\$178	\$196	\$219	\$211
Accessories	\$136	\$140	\$144	\$159	\$164	\$176	\$197	\$213	\$217	\$224
Infants Wear	\$153	\$158	\$162	\$178	\$176	\$190	\$210	\$208	\$214	\$219
Women's Wear	\$147	\$151	\$154	\$169	\$174	\$187	\$198	\$202	\$213	\$217
Sporting Goods	\$128	\$131	\$134	\$147	\$148	\$160	\$176	\$191	\$203	\$207
Lawn And garden	\$118	\$122	\$125	\$139	\$147	\$157	\$174	\$188	\$199	\$205
Paint and Wallpaper	\$133	\$128	\$132	\$145	\$139	\$150	\$167	\$186	\$196	\$199
Girls Wear	\$140	\$144	\$147	\$160	\$157	\$168	\$178	\$175	\$177	\$180
Boys Wear	\$129	\$132	\$135	\$147	\$143	\$154	\$173	\$171	\$177	\$182
Shoes	\$148	\$152	\$155	\$170	\$110	\$126	\$142	\$154	\$161	\$165
Luggage	\$85	\$81	\$86	\$94	\$94	\$101	\$105	\$107	\$112	\$113
Giftware	\$153	\$156	\$161	\$172	na	na	\$44	\$48	\$45	\$47

Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

The previous two tables outline great detail for reference in terms of sales/square foot and sales area devoted to each department in mass retail outlets.

Table 20. Supercenter Units and Sales in Billions of Dollars, 1989 to 1996.

	1989	1990	1991	1992	1993	1994	1995	1996
SuperCenter Sales	\$6.4	\$8.6	\$9.2	\$11.1	\$14.1	\$19.6	\$28.4	\$35.6
Top 5 SuperCenter Sales	na	na	na	\$8.7	\$11.5	\$17	\$25	\$32.4
SuperCenter Units	213	221	245	293	342	493	662	777
Top Five SuperCenter Units	na	na	na	174	240	382	523	681

A format receiving great attention in the mass retailing sector is the Supercenter concept. Clearly the seven years under study have been favorable to SuperCenters in terms of both sales and units. Sales have grown some 6-fold, while number of units have more than tripled. Another point worth mentioning in this specific channel is the degree of concentration held in supercenters.

Table 21. Wholesale Club Units and Sales in Millions of Dollars, 1987 to 1996.

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Sam's Club Units	105	125	123	147	208	256	419	428	433	436
Sam's Club Sales	\$3850	\$4750	\$4841	\$6200	\$9450	\$12400	\$14746	\$18908	\$19068	\$19785
Price Costco Units	46	58	52	59	80	170	218	221	231	252
Price Costco Sales	\$2149	\$2900	\$2900	\$4000	\$5300	\$14000	\$15155	\$16161	\$17906	\$19214
BJ's Units	22	25	22	25	29	39	52	62	71	81
BJ's Sales	\$800	\$1000	\$950	\$1200	\$1432	\$1800	\$2003	\$2329	\$2574	\$2923
Total Wholesale Club Units	313	377	357	418	495	600	712	734	735	769
Total Wholesale Club Sales	\$13984	\$17266	\$17539	\$21920	\$26750	\$33063	\$36591	\$37728	\$39548	\$41922

Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

Another channel of discussion in mass retailing is the Wholesale Club Store. Wholesale Club Stores are equally if not more concentrated in a few companies as the supercenter concept. The three major players in this channel are Sam's, Price Costco, and BJ's. This report will spotlight both BJ's and Costco later. Of note in this channel is the steep growth in the late 80's and early 90's and a more slow growth since that time. At the same time, one would be remiss to say that Wholesale Clubs were in an era of complete stagnation.

Table 22. Sales in Billions of Dollars and Number of Units of Combination Drug Stores and Combination Supermarkets, 1987 to 1996.

	1987	1988	1989	1990	1991	1992	1993	1994	1994	1995
Combination Drug Store Units	3222	3314	3377	3430	3561	3782	3799	3627	3602	3594
Combination Drug Store Sales	\$11.4	\$12.4	\$13.4	\$14.7	\$17.5	\$19.5	\$20.6	\$20.7	\$20.9	\$21.6
Combination Supermarket Units	2988	3112	3255	3432	3561	3649	3786	3844	3912	3925
Combination Supermarket Sales	\$8.2	\$8.7	\$9.5	\$10.2	\$10.7	\$11.6	\$12.2	\$13.4	\$13.9	\$14.4

Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

The last channel also included within a discussion of mass retailing outlets is the combination drug and combination supermarket stores. Both channels are experiencing a slow and steady growth during this past decade.

Table 23. Percentage Change in Sales of Various Mass Retailing Outlets, 1988 to 1996.

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Discount Store	4.0%	4.5%	8.6%	7.8%	11.8%	14.9%	19.8%	10.8%	6.2%
Specialty Discounter	4.6%	11.4%	3.0%	2.3%	6.0%	20.2%	26.4%	11.9%	7.5%
Wholesale Clubs	30.8%	25.0%	24.0%	23.5%	23.5%	10.6%	3.3%	4.5%	6.1%
Combo Drug Stores	9.7%	8.1%	9.7%	19.0%	11.4%	5.6%	0.5%	1.0%	3.3%
Combo Supermarket	7.4%	9.2%	7.4%	4.9%	8.4%	5.2%	9.8%	3.7%	3.6%
Deep Discount Drug Store	30.8%	32.4%	20.0%	29.6%	8.6%	1.3%	-9.0%	1.4%	1.4%
Catalog Showroom	32.9%	1.9%	1.9%	0%	3.8%	1.8%	8.9%	3.3%	1.6%
Total Mass Retailing	5.3%	8.8%	9.4%	10.0%	11.9%	12.9%	15.1%	24.6%	5.9%

Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

Table 24. Percentage Changes in Specific Features of Discount Merchandiser Outlets, 1988 to 1996.

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Size/unit	2.1%	0.2%	1.8%	0.9%	1.0%	2.7%	4.4%	0%	4.4%
Size/new unit	2.3%	2.5%	5.0%	7.6%	0.7%	14.6%	16.7%	11.8%	-7.5%
Sales/sq. ft	2.6%	2.7%	9.4%	3.8%	7.3%	10.1%	14.3%	7.8%	2.9%
# of units	-0.7%	0.8%	-2.2%	2.6%	1.3%	1.2%	1.6%	1.4%	-1.2%
Sales area/unit	2.1%	0.9%	5.1%	-2.1%	2.9%	3.1%	3.1%	1.4%	4.4%

Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

Table 25. Percentage Changes in Supercenter Sales, and Supercenter, Combo Drug, and Combo Supermarket Numbers, 1988 to 1996.

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Supercenter Sales	-	-	34.4%	7.0%	20.7%	27.0%	39.0%	44.9%	25.4%
Supercenter Units	-	-	3.8%	10.9%	19.6%	16.7%	44.2%	34.3%	17.4%
Combo Drug Units	2.9%	1.9%	1.6%	3.8%	6.2%	0.4%	-4.5%	-0.6%	-0.2%
Combo Supermarket Units	4.1%	4.6%	5.4%	3.8%	2.5%	3.8%	1.5%	1.8%	0.3%

Source: Discount Merchandiser, The True Look State of the Industry Report, Selected Issues

C. Specific Marketing and Strategic Focus in Discount Store Formats

1. Identification of critical trends in Discount Store Retailing

a. Store Design and format type takes on specific size, shape, and layout to meet specific demographic needs.

The discount store channel is taxonomically the most challenging of the mass retail channels to define. The high number of retail outlets that fall into the classification as a discount store or mass retailer, makes it difficult to know where to focus attention when identifying specific trends. However, this challenge leads to the most dominating trend in this channel: a number of different formats and designs have existed and continue to exist in the market place. Certainly the advent of supercenters has spurred concern in the industry that one format may soon dominate. Although, as with combination supermarkets, combination drug stores, wholesalers and others in the past, no single definition completely dominates. Listed below are a number of specific examples of mass retailers tailoring their format and store design offering to a specific location or demographic:

- Supercenters, which offer both discount store and supermarket merchandise, are the predominant format in this channel. Wal-Mart has five sizes of supercenters to fit almost any market.
- Wal-Mart and K-Mart have replaced discount stores in small markets with small supercenters.
- In some markets the smaller sized supercenters are doing so well that the chains are downsizing the large formats as well. Smaller supercenters serve smaller markets. They offer the same departments, just fewer products.
- Discount stores are moving into more urban markets such as New York City and Philadelphia which require the renovation of existing space and innovative layouts.
- One Wal-Mart in Florida features a T-shirt shop, souvenir department, fresh seafood, locally grown produce, an extensive selection of beer, frozen bait, a large line of sun care products, and games and puzzles popular with “snowbirds.”
- Pamida stores look to separate themselves from the crowd by locating in smaller towns in Midwestern states. They look to sell in towns of 2000 to 5000 people. This style gives the manager of each store considerable autonomy in product mix and pricing decisions. (Johnson, 1997)

b. Convenience to the consumer is a key theme. Special attention paid to adjacencies.

Consumers shopping in discount stores have increasingly desired a convenient, quick shopping experience. The consumer in this channel is demanding both the convenience of one-stop shopping, but also ease and speed within the store. Retailers have been

forced to respond by shifting the store layout to bring categories closer to consumers, adding adjacencies and increasing checkouts along with entrances and exits. A few specific examples of adding convenience to discount store shopping include:

- K-Mart introduced a high frequency format, Big K, that features more logical department adjacencies and a food department.
- Caldor stores have placed a new numbering system on the end caps, placed toy and children's apparel adjacent. (Johnson, 1998)

c. Wider aisles, lower shelving profiles, and brighter lights are prevalent in new designs.

Again consumers are demanding a more friendly open environment in which to shop. As mass retail formats have grown it has become overly cumbersome to traverse a store with narrow aisles, poor lighting, and high shelf profiles. As a result, newer designs are seeking a spacious and uncluttered look. In addition, stores are updating their signage with easy-to-follow, graphical, and color-coded designs. Signs also feature the names of the brands sold, especially in hard lines. Specific examples of this simplifying the store layout include:

- Brighter lighting and wider aisles highlight new Kmart store openings. (No Author, 1997)
- Wal-Mart has introduced stores with wider aisles, brighter lights, new signs, and new merchandise in recent prototypes. (No author, 1997)

d. Stores-within-a-store or boutiques continue to be popular with categories such as bath and body, licensed sports apparel, denim and other apparel, and home decor.

Discount merchandisers have kept pace with their other retailing counterparts in the necessity for the store within a store approach to marketing. By appropriately grouping products into a destination center or nearby in an adjacent location, retailers can capitalize on consumers desire to group and purchase key items. Specific examples of this store within a store technique include:

- Cross-merchandising and logical adjacency are deemed critical for a big store-the emphasis is on the way consumers use products not the way that retailers buy them. For instance health and beauty care items may be sold in the bath department.
- K-Mart uses cross-merchandising to sell full-line Martha Stewart products.
- Discount stores employ displays on wheels so that departments can easily be reconfigured for promotional items.
- Fred Meyer has recently focused attention on Bath Boutiques or "Splash Shops" in its new store development of more than 60 stores in 1996. (No author, 1997)

e. Foodservice and grocery product introduction and development on the rise.

Discount merchandisers have focused great attention the past several years into the introduction and expansion of grocery departments and prepared and convenience food offerings. There is great feeling amongst the industry and data to support the fact that the presence of food departments in a discount store can increase sales of other general merchandise significantly. Discount merchandisers are looking to make food offerings a destination for their shoppers. Further, these retailers recognize that they can increase the traffic flow precipitously with the inclusion of a food department. Several examples of discount retailers implementing food departments would include:

- Supercenters offer a variety of foodservice options. SuperT features a food court with national fast food restaurants.
- Many discounters partner with national fast food restaurants for in-store foodservice operations.
- Supercenters are emphasizing fresh products which are placed near the front of the store.
- Deli and bakery operations are also placed at the front of the store. This location allows customers to run in, pick up a few food items, and run back out. Check stands are usually situated close by.
- Major supercenter players are experimenting with home meal replacement.
- Kiosks for specialty foods and beverages feature items such as fruit and vegetable juice, coffee, and sushi.
- Discounters are also cross-merchandising food with other items. For example, one store sold Gatorade in the athletic shoe department.
- Kmart plans to launch Kcafe with an emphasis on branded food products. Further they have expanded their strategic alliance with Little Ceasars. (No Author, 1997)

f. Trends in specific departments within discount merchandiser outlets.

1. Health & Beauty Care Trends:

- Wal-Mart is testing a store-within-a-store for vitamins and nutritional supplements.
- Health and beauty aids and pharmacy are seen as traffic builders for the store.
- Some stores offer optical services
- Stores designing boutiques for cosmetics and bath and body

2. Home Products Trends

- Home decor and accessories are given considerable attention by this retail class as the competition with home lines category killers is intense.
- Storage remains an important category for this channel.

- SuperCenters are expanding hard-line areas with an eye to local needs such as sporting goods (hunting, fishing, boating), automotive services, green goods, and hardware.
- Super T has a prototype seasonal department with its own checkout.
- Toys are a major success for discounters. Some devote special sections to Barbie and other favorites.
- Wal-Mart is testing enclosed bullpens in the sporting goods department in its prototype stores.
- “Social expressions” category (greeting cards, gift wrap, party ware) is being given larger departments in prominent, up-front locations as it becomes a destination center.
- Greeting card sections can be tailored for a particular store. The greeting card department is becoming an upscale card shop within a store.
- The “as seen on TV” category is merchandised either as a group presentation on a promotional fixture or as an in-line display in the appropriate department.
- Larger stores are experimenting with adding permanent lawn and garden centers, partially in response to dominance of the home improvement stores in this area.
- Video rental, hair care services, dry cleaners, and optical centers are some of the services offered in supercenters.

3. Apparel Trends

- Struggling chains, such as Venture and Bradlee’s, are focusing on the apparel and home categories.
- Lifestyle merchandising is the key.
- Denim, children’s, plus sizes, petite sizes, and intimate apparel receive special attention in this channel.
- Discount stores are carrying more upscale brands normally found only in department stores.
- Aisles cut through apparel departments allow shoppers to easily push shopping carts through the area. The aisle also provides a clearer demarcation between departments such as petite and plus sizes.

4. Consumer Electronics Trends

- Chains are doing away with the corral layout of consumer electronics and adopting a more open look.
- Wal-Mart is testing a PC upgrade center and CD listening stations in its prototype stores.
- Wal-Mart has also experimented with the installation of Blockbuster Video rental departments. Video is a destination department that builds traffic for discount stores.
- Discount stores cross-merchandise consumer electronics, especially new video releases, with other departments.

- Mix of music offered by a store may be drive by local taste.
- Discount merchandisers are using one-hour photo processing as a destination center. These retailers are developing the category through cross-merchandising photo products throughout the store, displaying consumer education signage, and avoiding price competition.

g. Other important trends:

- Wal-Mart is testing “green stores” which sport energy efficient and environmentally correct features.
- Some mass retailers are experimenting with self scanners in stores.

2. Further Descriptive Support of Trends Identified

a. Wal-Mart

Wal-Mart opened their first store in 1962 in Rogers, Arkansas. Their first Supercenter was founded in 1988 in Washington, Missouri and their first international store was formed in Mexico City in 1991. Today the Wal-Mart organization serves more than 90 million customers weekly in 50 states, Puerto Rico, Canada, China, Mexico, Indonesia, Brazil, and Argentina. Currently they have more than 800,000 associates worldwide. Sales for fiscal year ending 1/31/97 were \$104.8 Billion, a 12% increase over the previous year, and a 3.9% increase for same stores.

Wal-Mart focuses extensively on community involvement through such programs as the Children’s Miracle Network, Sam Walton Business Leader Awards, American Hometown Leader Awards, and Economic Development Grants. Furthermore, Wal-Mart distributed some 3000 scholarships in 1996 to deserving high school seniors totaling more than \$8.4 million. Lastly, Wal-mart contributed more than \$1.3 million in environmental education programs in 1996.

Wal-Mart has as a major corporate principle to be environmentally friendly. A number of ways in which they demonstrate this mission: environmental advisory board to help improve the lives of customers and associates, partnership with Philips Lighting to use ALTO fluorescent lighting - which uses 80% less mercury than standard fluorescent lighting, the development of three Eco Stores that serve as testing grounds for environmentally-friendly measures, and green coordinators who act as liaisons between individual stores and the community on environmental issues.

Wal-Mart launched a new era in retailing with its first Supercenter in 1988. This format provides the ultimate in one-stop shopping. Supercenters have 36 departments of discount merchandise coupled with a complete grocery section. Supercenters have been referred to as “the most exciting retailing concept on the landscape.” (Margaret A. Gilliam, CS First Boston).

“Lastly, Wal-Mart’s evolution has included the appearance of McDonald’s, Wendy’s, Taco Bell, A&W Restaurants, Blockbuster video outlets, opticians, hair stylists, local banks, and a number of other services that has been added or are being tested for the customers’ convenience.”

b. K-Mart

The first Kmart discount department store was opened in Garden City, Michigan in 1962. In that first year of operation corporate sales topped \$483 million. In 1966 Kmart had its first \$1 billion sales years. In 1995 sales were at \$32.4 billion. Today there are over 2100 Kmart stores in the United States, Puerto Rico, Canada, Guam, the U.S. Virgin Islands, and Mexico. Kmart employs some 300,000 individuals worldwide.

Today’s Kmart varies dramatically from the store of the sixties. Now there is a tremendous emphasis on top brands and a strong program for private label for the price conscious consumer. “Amongst the more popular branded lines include: Jacyln Smith and Kathy Ireland apparel line, Route 66 for men, women, and children, name brand athletic shoes, Martha Stewart fashions for the home, well-known cosmetics and fragrances and many respected names in home improvement and health and beauty care.” Kmart has purchased the Walden books company in 1984 as well as Builders Square also in 1984.

In 1988 Kmart announced two new retailing concepts to be developed by its Builders Square subsidiary - Sports Giant and Office Square. In 1990 they announced a 5 year, \$3.5 Billion new store opening, enlargement and modernization program. This program involved building new full-size Kmart stores, enlarging existing stores, and relocating and refurbishing others.

In September 1990, Kmart acquired 22% ownership interest in Office Max, an office supply superstore chain. Also in September 1990, Kmart unveiled their new logo reflecting change and innovation for the chain. Kmart next made its initial entry into Central Europe when it acquired its first store in the Czech Republic in May 1992. Later that same year Kmart purchased 12 additional stores in the Czech Republic. 1993 saw the divestiture of the PACE Membership Warehouse subsidiary. Further Kmart dissolved its association with the Payless DrugStore Northwest in a sale to Thrifty Drugs in 1996.

Amongst the most exciting recent changes in Kmart would include the development of Big Kmart Stores. In 1996 Kmart converted 152 of its traditional stores to feature new store design which was referred to as the high-frequency format. In 1997 the stores were renamed Big Kmart stores. “These stores emphasize those departments that are the most important to core customers and offer an increased mix of high frequency, everyday basics and consumables in the pantry area.” Of special interest is the 7000 square feet and 5500 SKU’s that are devoted to the pantry section. Additionally these stores feature

improved lighting and new signs. As of July 31, 1997 there were approximately 400 Big Kmart's nationwide, with 260 more stores to be converted yet that year.

Kmart's other specialty store is the Super Kmart Store. These stores are said to offer Kmart a "long-term vehicle for growth" These Supercenters offer a full assortment of fresh groceries as well as broad selection of general merchandise. Open 24 hours each day, 7 days each week, Super Kmart Centers range in size from 135,000 to 194,000 square feet. These store are currently the third largest supercenter concept after Wal-Mart and Meijer, the fifth largest discount store concept, and nineteenth largest grocer.

Source: www.kmart.com

c. BJ's Wholesale Club

"BJ's Wholesale Club, Inc. introduced the wholesale club concept to the northeastern United States in the mid-1980's. Since that time, the chain has expanded its operation to thirteen states from Maine to Florida. As of April 15, 1997, BJ's operated 87 clubs and two cross-dock distribution centers.

BJ's has identified the general consumer as the member group with the highest potential for supporting the long-term growth in its business. This does not imply that BJ's is less attentive to their business members. BJ's focus on the Inner Circle member allows enrichment of the merchandise assortment and differentiates BJ's from its wholesale club competitors. To appeal to this customer, BJ's provides a slightly broader product selection when it is possible to do so without adding significant additional cost.

Food represented approximately 61% of BJ's business in 1997. Great pricing on food and other consumable items provides a strong incentive to join BJ's, and subsequently drives shopping frequency. General merchandise products create excitement and confirm the values available in wholesale club shopping.

In 1997, new programs emphasizing produce, seasonal candy and confections, better wines and specialty frozen food items contributed to incremental sales. Health and beauty aids, a category that was successfully expanded two years ago, generated very strong sales during the year and will be expanded even further in the current year. Initiatives planned for this year include an emphasis on perishables, refinements to package size that have the potential to neutralize the effects of deflation in food, and continued cooperation with our vendors to improve packaging to facilitate further efficiencies in our systems.

During 1997 new electronic point-of-sale registers were installed at the check out stations in a number of clubs during the year that transfer the date, payee name and register total to the members check, requiring only a signature to complete the transaction. This system, which is being installed chain-wide during the current year, has resulted in a noticeable decrease in check-out times and an increase in member satisfaction.

BJ's is the only wholesale club to honor manufacturer's coupons. BJ's was also the first wholesale club to accept various credit cards. Today, it offers credit options through VISA, Mastercard, and BJ's co-branded Mastercard that offers members 2% rebates on all purchases at BJ's and 1% rebates on other purchases, and the Discover card.

Further, and unique among wholesale clubs, BJ's utilizes vendor-supported television and radio advertising each holiday season to emphasize the high quality, brand name value available at BJ's. *Nobody Gets It Like BJ's* was the theme of last years ad campaign.

BJ's has a variety of specialty businesses that are designed to make a visit to a BJ's Club as productive and enjoyable as possible. In partnership with third parties, BJ's offers optical services, travel packages and services, ExpresStop Photo Shops, cellular phones and pagers and a "Realty Reward" program that offers savings on real estate transactions and moving services. BJ's was the first wholesale club to offer branded products in its food courts - Pizza Hut and Taco Bell products are sold in BJ's at lower prices than are typically found at Pizza Hut and taco Bell restaurants.

BJ's began offering fresh rotisserie-cooked chicken last year, and is currently expanding this program. BJ's members have found that a \$4.99, two and one-half to three pound Perdue chicken, is an outstanding value. BJ's is also testing a mini-branch bank concept inside the club. BJ's opened the first of these units late in 1997, to be followed by a second this coming summer. In addition, BJ's plan to open their first gas station in early spring in Lancaster, PA. The gas station will be in BJ's parking lot and available only for BJ's members.

Finally, BJ's expects to expand its test of name brand muffler and brake service in their tire centers. BJ's has found this concept saves labor it the club while expanding services to members."

Source: BJ's 1997 Annual report

d. Costco

"Costco companies, Inc. ("Costco" or the "Company") began operations in 1976 in San Diego, California as the Price Company, pioneering the membership warehouse concept. Costco Wholesale Corporation began operations in 1983 in Seattle, Washington with a similar membership warehouse concept. Costco was formed in October 1993 as a result of a merger of Costco Wholesale Corporation and The Price Company. Costco is the parent company of Costco Wholesale Corporation and The Price Company which operates membership warehouses primarily under the Costco Wholesale name.

Costco operates a chain of cash and carry membership warehouses that sell high quality, nationally branded and selected private label merchandise at low prices to businesses purchasing for commercial use, personal use, or resale, and also to individuals who are members of selected employee groups. The company's business is based upon achieving

high sale volumes and rapid inventory turnover by offering a limited assortment of merchandise in a wide variety of product categories at very competitive prices. As of December 1997, the company operated a chain of 268 warehouses in 23 states (204 locations), nine Canadian provinces (56 locations), the United Kingdom (seven locations, through a 60%-owned subsidiary), and one warehouse in Taiwan. The company also operates 14 warehouses in Mexico through a joint venture partner, and has a license agreement for the operation of two warehouses in Korea.

During the past year Costco began development and testing of an Executive Membership program, which offers a “menu” of new services to the Costco “Executive Member” at a \$100 annual membership fee. The variety of new services include discounted credit card processing, employee health insurance, and business forms and check printing for business members; and discounted auto insurance, homeowners insurance, mortgage services and real estate brokerage service, for all Costco members. Costco’s objective is to use their significant purchasing power and negotiate very competitive deals with service providers for the benefit of our loyal customer base of members. During the first several months of testing these services in Washington and Arizona and more recently in Oregon and Colorado, thousands of Costco members have elected to upgrade to the Executive Membership level for a trial period, and will begin paying the higher membership rate beginning with their 1998 renewal date. Costco is pleased with the tests thus far and plan to continue rolling out this program to other states during the calendar 1998.

In terms of expansion, Costco is excited about their entry into the Detroit and Chicago markets in 1998. This past summer they purchased seven locations in Michigan from Hechinger Company, a home improvement warehouse operation, and plan to open five of these units in the Detroit area by early next summer. In addition, Costco has identified several promising sites for entry into the greater Chicago area. Both of these new markets, along with their recent entry into the Philadelphia market, have many of the strong demographic characteristics similar to those in our most successful markets.

Fiscal 1998 plans call for a net increase of approximately 18 to 20 new warehouses, including those discussed above. Costco has already opened eight new units in fiscal 1998 prior to the important Christmas holiday seasons. Also, in September Costco opened their fourteenth warehouse in Mexico (in Monterrey) with their joint venture partner; and their licensee in Korea plans to open its third unit (in Taejon) in early calendar 1998.”

Source: Costco 1997 Annual Report

e. Sam’s Club

Sam’s Club Membership Warehouse for Business and Home, a division of Wal-mart Stores, Inc., started in April, 1983 with its first store in Midwest City, Oklahoma. That

year saw the introduction of three stores. Since that time Sam's has grown to a \$20 billion business with locations across the country.

Sam's Club has limited its merchandise mix to approximately 3800 items. This allows Sam's to focus on quality, name brand merchandise. The membership of a Sam's Club is comprised of both businesses and individuals. Typical businesses include churches, child care centers, restaurants, manufacturers, automotive shops, farmers, etc. Individuals can also take advantage of the special buying power made possible through a club warehouse format. Both business and individual shoppers are able to get a card for a fee of \$25 annually.

Sam's Club works as a purchasing agent for business members. Sam's carefully selects among several categories such as paper products, furniture, and computer software to fulfill the needs of the Sam's customer. At the same time, Club members may use special order catalogs which carry service-specific items in the areas of child-care, hotel/motel, restaurant equipment and more. For the home shopper Sam's Club offers quality name brand merchandise such as TV's, VCR's, home furnishings, designer clothing, etc. In addition, grocery offerings include: bakery, produce, meats, dry groceries, and prepared foods.

Sam's Club's success is founded on hometown values and a commitment to the communities it serves. Sam's is also a strong donor to organizations such as the United Way, Children's Miracle Network, Earth Day, and Adopt-A-Highway/ Beach amongst others.

D. Analysis and Discussion of Structural and Marketing/Strategic Changes in Discount Merchandiser Formats

This discount merchandiser channel is an exciting format to study and project into the future due the large number of format types and the size and sophistication of a few of the most dominate marketers. The late 1980's and 1990's has been an era of dramatic change amongst the definition of these stores and the markets in which they participate. Look for these dramatic changes to continues and mass retailers carve out an increasingly large piece of the consumer expenditure.

Specifically, the following trends can be expected to drive store layout decisions in the next five years for discount merchandisers:

- An escalating interest on behalf of all discount merchandisers to include food in some form into their product mix
- Increasing importance placed on product adjacencies and product bundling to spur primary and secondary sales at retailers outlets
- Plans to simplify store layouts in increasingly complex “mega-box” outlets
- As overhead costs continue to escalate in these large stores, a focus on higher margin products will help streamline product selection
- A continuation of different mass retailing formats focusing on their particular market niche defined.

Each of these predictions are elaborated below.

1. An escalating interest on behalf of all discount merchandisers to include food in some form into their product mix

A dominating theme in discount retailing in the past five years has been the addition of food departments to certain stores and companies. This trend has been spurred by the desire of discounters to draw more consumers into their stores with the hope that they will purchase other higher margin items while in the store as well. This philosophy has paid off quite well for some retailers and when managed correctly can do the same for a number of different retailers.

Specifically, it is probable that discounters will introduce a variety of food items in a number of different designs. For those retailers with the size and capital, introduction of a full grocery department is quite feasible and will be profitable and draw in numerous customers. For other stores, at the onset, certain high turnover, high margin products will be chosen to supplement their current mix of general merchandise.

This notion of selling food brings about a number of implications for mass retailers. First, and foremost is the human resources and management capacity that these companies and stores will need, due to the perishable nature of most food products. This is quite a contrast from the current product mix of these stores. In addition, store space

must be reallocated to find the right mix between product offerings, product turns, and total store profitability. When stores are able to balance these issues food will become a dominate category among mass retailers.

2. Increasing importance placed on product adjacencies and product bundling to spur primary and secondary sales

Mass retailers will continue to study consumer purchase patterns and discover those products in their current product mix that best can be sold or bundled together. With this important information, stores will be laid out in such a manner as to put these categories together for ease of customer flow and with the hope of increasing primary and secondary sales of certain products.

This is a popular trend in mass retailing today and will take a considerable degree of analytical sophistication to carry out in a profitable and meaningful manner. Discovery of the best products and the best mixes will no doubt require much research and dramatic store redesigns. Also, involved in this adjacency building will be a certain degree of product mix streamlining.

3. Plans to simplify store layouts in increasingly complex “mega-box” outlets

While consumer trends demanding one-stop shopping have spurred great interest in large stores offering everything under the sun, the time has come to limit this growth. Consumer research shows that consumers have had enough of large, cumbersome shopping experiences. They have a great desire to go to a store with their product, get in, pay, and get out. A number of these large mega stores do not facilitate this process.

To rectify this situation it is felt that mega stores will be forced to take dramatic measures in either redesigning the store or cutting back on products. If they choose to redesign, look for extensive use of signs, directories, lowering gondolas, trained personnel to answer specific questions, and a layout conducive to speedy shopping.

In contrast, if these retailers choose to cut back on total SKU's for simplicity, there will be much emphasis placed on products not generating target income. These products are likely to be removed from the mix and replaced with high margin products or simply removed to simplify the product mix.

4. As overhead costs continue to escalate in these large store, a focus on higher margin products will help streamline product selection

One of the most obvious trends over the past decade in discount retailing is the emphasis paid to making larger and larger stores. These larger stores enable many retailers to increase SKU's with nearly a degree of “reckless abandon.” Many retailers have lost focus on the type, style, quality, and mix of product that helps to identify them as a specific type of retailer in the market. In addition, in the interest of being a one-stop

D. Analysis and Discussion of Structural and Marketing/Strategic Changes in Discount Merchandiser Formats

This discount merchandiser channel is an exciting format to study and project into the future due the large number of format types and the size and sophistication of a few of the most dominate marketers. The late 1980's and 1990's has been an era of dramatic change amongst the definition of these stores and the markets in which they participate. Look for these dramatic changes to continues and mass retailers carve out an increasingly large piece of the consumer expenditure.

Specifically, the following trends can be expected to drive store layout decisions in the next five years for discount merchandisers:

- An escalating interest on behalf of all discount merchandisers to include food in some form into their product mix
- Increasing importance placed on product adjacencies and product bundling to spur primary and secondary sales at retailers outlets
- Plans to simplify store layouts in increasingly complex “mega-box” outlets
- As overhead costs continue to escalate in these large stores, a focus on higher margin products will help streamline product selection
- A continuation of different mass retailing formats focusing on their particular market niche defined.

Each of these predictions are elaborated below.

1. An escalating interest on behalf of all discount merchandisers to include food in some form into their product mix

A dominating theme in discount retailing in the past five years has been the addition of food departments to certain stores and companies. This trend has been spurred by the desire of discounters to draw more consumers into their stores with the hope that they will purchase other higher margin items while in the store as well. This philosophy has paid off quite well for some retailers and when managed correctly can do the same for a number of different retailers.

Specifically, it is probable that discounters will introduce a variety of food items in a number of different designs. For those retailers with the size and capital, introduction of a full grocery department is quite feasible and will be profitable and draw in numerous customers. For other stores, at the onset, certain high turnover, high margin products will be chosen to supplement their current mix of general merchandise.

This notion of selling food brings about a number of implications for mass retailers. First, and foremost is the human resources and management capacity that these companies and stores will need, due to the perishable nature of most food products. This is quite a contrast from the current product mix of these stores. In addition, store space

must be reallocated to find the right mix between product offerings, product turns, and total store profitability. When stores are able to balance these issues food will become a dominate category among mass retailers.

2. Increasing importance placed on product adjacencies and product bundling to spur primary and secondary sales

Mass retailers will continue to study consumer purchase patterns and discover those products in their current product mix that best can be sold or bundled together. With this important information, stores will be laid out in such a manner as to put these categories together for ease of customer flow and with the hope of increasing primary and secondary sales of certain products.

This is a popular trend in mass retailing today and will take a considerable degree of analytical sophistication to carry out in a profitable and meaningful manner. Discovery of the best products and the best mixes will no doubt require much research and dramatic store redesigns. Also, involved in this adjacency building will be a certain degree of product mix streamlining.

3. Plans to simplify store layouts in increasingly complex “mega-box” outlets

While consumer trends demanding one-stop shopping have spurred great interest in large stores offering everything under the sun, the time has come to limit this growth. Consumer research shows that consumers have had enough of large, cumbersome shopping experiences. They have a great desire to go to a store with their product, get in, pay, and get out. A number of these large mega stores do not facilitate this process.

To rectify this situation it is felt that mega stores will be forced to take dramatic measures in either redesigning the store or cutting back on products. If they choose to redesign, look for extensive use of signs, directories, lowering gondolas, trained personnel to answer specific questions, and a layout conducive to speedy shopping.

In contrast, if these retailers choose to cut back on total SKU's for simplicity, there will be much emphasis placed on products not generating target income. These products are likely to be removed from the mix and replaced with high margin products or simply removed to simplify the product mix.

4. As overhead costs continue to escalate in these large store, a focus on higher margin products will help streamline product selection

One of the most obvious trends over the past decade in discount retailing is the emphasis paid to making larger and larger stores. These larger stores enable many retailers to increase SKU's with nearly a degree of “reckless abandon.” Many retailers have lost focus on the type, style, quality, and mix of product that helps to identify them as a specific type of retailer in the market. In addition, in the interest of being a one-stop

shopping experience for all consumer needs, many discount retailers have included products in their mix that lack high turns and great profitability.

To counter this trend, mass merchants will scrutinize product selection more carefully. Important attributes in product selection will include high turnover, margin generated per item sold, and the necessity of purchase by consumers. This focus is positive for a retailer in freeing up some shelf space, enabling the construction of smaller more efficient stores in the future and increasing the overall image of the store. With a strategic plan in place helping to set product choice, retailers can create their own specific image to draw customers.

Finally this streamlining of products will make the “box” easier to shop. Having fewer SKU’s will have dramatic impacts on manufacturers who no longer will be able to buy real estate in a retailer to place any new product introduction that the manufacturer deems important to be sold, but rather manufacturers will be forced to be more selective in the products they introduce and choose to support. This streamlining effort will benefit consumers and place a greater degree of control with the retail trade.

5. A continuation of different mass retailing formats focusing on their particular market niche defined

The mass retailing segment is all ready characterized by a number of different styles, sizes, strategic orientations, and physical layouts and locations. This large family of discounters has always enabled this channel of trade to serve an overwhelming portion of the populations and a large number of the populations needs. In the coming years this trend can be expected to continue to an even greater extent.

What consumers are demanding in their store of the future, is a box that is built to their own design specifications. As a result, look for mass retailers to modify current stores and new stores to spring up that meet specific segments. These segments may be defined on consumer income, age, shopping habits, product choices, product bundling choices, customer service attributes, decor, etc. Retailers with a strong customer focus will survey their market demographics and develop stores that meet those specific needs and none other.

In an increasingly competitive retail landscape it is an imperative of all companies to focus on a niche within which they can succeed. This trend will truly make a change in the industry as mass retailers become no longer “mass”, rather they become large retailers focused on individual niches in individual markets. This creates true challenges for manufacturers as they look to serve a large number of these segmented, niche offering stores. This will no doubt create challenges in product design, manufacturing, distribution, and service. However, these changes are deemed necessary and driven by the consumer in the coming years.

V. Convenience Store Format Analysis

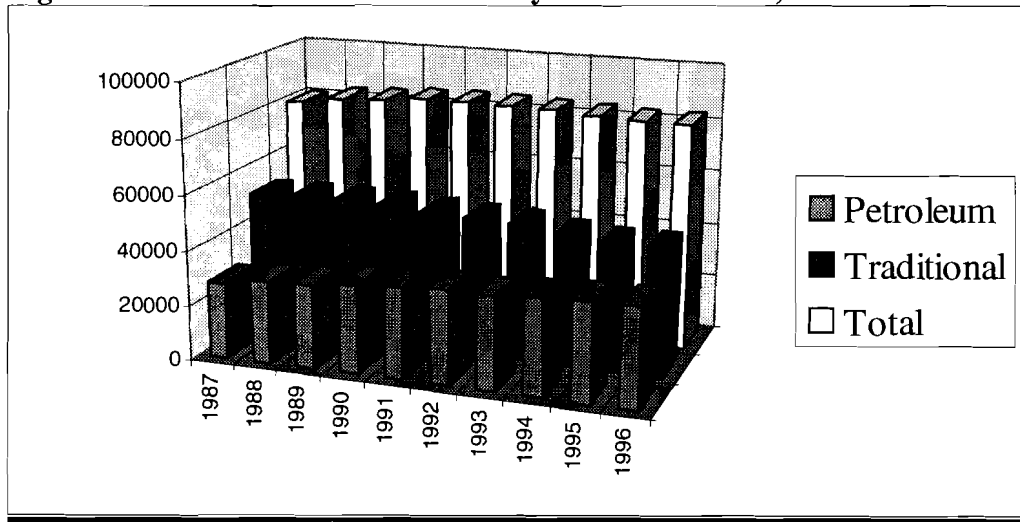
The convenience store channel has been included in this foundation report to provide additional perspective in terms of structural trends when comparing different channels of trade. This section is limited to **Part A** where structural trends are listed and specific data given.

A. Structural Changes Occurring in Convenience Store Formats

In **Part A** data included: **1.** convenience store industry store numbers, **2.** summary statistics including industry sales, category sales, square foot per store, merchandise sales per square foot, merchandise sales per traditional and per petroleum store.

1. Convenience Store Industry Outlet Numbers

Figure 27. Convenience Store Industry Outlet Numbers, 1987 to 1996.



Source: Convenience Store News, Convenience Store Industry Report, Selected Issues

2. Summary Statistics in the Convenience Store Industry.

Table 26. Convenience Stores Numbers and Sales in Billions of Dollars, 1987 to 1996.

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Traditional C-Stores	52000	52500	52300	52000	51000	50200	49800	47900	46400	46200
Petroleum C-Stores	28000	30000	30700	32500	33500	34200	34200	35100	35900	36200
Total C-Stores	80000	82500	83000	84500	84500	84400	84000	83000	82300	82400
Merchandise Sales	\$40.1	\$41.8	\$43.1	\$45.6	\$44.5	\$45.4	\$45.7	\$46.9	\$46.8	\$48.9
Gasoline Sales	\$32.3	\$40.7	\$50.1	\$57.9	\$59.5	\$70.2	\$72.8	\$61.7	\$66.3	\$66.4
Total Sales	\$72.4	\$82.5	\$93.2	\$103.5	\$104	\$115.6	\$118.5	\$108.6	\$113.1	\$115.3

Source: Convenience Store News, Convenience Store Industry Report, Selected Issues

Table 27. Sales in Millions of Dollars for Specific Categories in Convenience Store Outlets, 1989 to 1996.

	1989	1990	1991	1992	1993	1994	1995	1996
Gasoline	\$50100	\$57900	\$59500	\$70200	\$72762	\$61700	\$66314	\$66415
Tobacco	\$7600	\$9000	\$9750	\$10120	\$10322	\$10586	\$10996	\$12842
Beer, Wine, Liquor	\$5300	\$5800	\$5870	\$6280	\$6398	\$5622	\$6438	\$5512
Bottled/Canned Drinks	\$4800	\$5000	\$5220	\$5140	\$5275	\$5859	\$5619	\$5773
Prepared Foods	\$3440	\$3600	\$3510	\$3680	\$3654	\$3375	\$3678	\$3988
Fountain/Coffee/Slush	\$3260	\$3400	\$3430	\$3610	\$3623	na	na	na
Confectionery	\$2800	\$2900	\$2910	\$2850	\$2919	na	na	na
Groceries/Frozen Food	\$3200	\$3400	\$2500	\$2590	\$2510	\$3145	\$3004	\$2851
Milk, Dairy	\$2600	\$2600	\$2540	\$2420	\$2328	\$2378	\$2180	\$2585
Packaged Salted Snacks	\$200	\$2100	\$2010	\$1990	\$2064	\$1872	\$1900	\$1937
Periodicals	\$1200	\$1300	\$1240	\$1210	\$1233	\$1180	\$620	\$927
Packaged Baked Goods	\$1500	\$1400	\$1310	\$1120	\$1086	\$1087	\$903	\$862
HBC	\$1200	\$1300	\$1050	\$1050	\$1078	\$1068	\$1011	\$909
Packaged Ice Cream	\$900	\$900	\$730	\$720	\$683	\$882	\$714	\$638

Services	\$900	\$600	\$560	\$700	\$826	\$1388	\$1043	\$345
Packaged Deli Items	\$1000	\$900	\$650	\$600	\$513	\$423	\$866	\$570
Ice	\$400	\$400	\$340	\$450	\$503	\$481	\$699	\$530
GM	\$700	\$700	\$600	\$570	\$457	\$2254	\$1892	\$2387
Misc. Food	\$300	\$300	\$280	\$300	\$255	\$368	\$451	\$549

Source: Convenience Store News, Convenience Store Industry Report, Selected Issues

Table 28. Size and Sales/Square Feet in Traditional and Petroleum Format Convenience Stores, 1991 to 1996.

	1991	1992	1993	1994	1995	1996
Sq. Ft. in Traditional	2500	2500	2500	2500	2500	2510
Sq. Ft. in Petroleum	1900	2000	2000	1500	1300	2020
Ave. Merchandise Sales/Sq. Ft. -Traditional	na	na	\$237	\$246	\$245	\$338
Ave. Merchandise Sales/Sq. Ft.- Petroleum	na	na	\$238	\$330	\$393	\$336

Source: Convenience Store News, Convenience Store Industry Report, Selected Issues

Table 29. Average Merchandise Sales in Thousands and Transaction Sizes for Traditional and Petroleum Format Convenience Stores, 1987 to 1996.

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Ave. Merchandise Sales/Traditional Store	\$550	\$550	\$565	\$586	\$590	\$586	\$592	\$616	\$613	\$644
Ave. Merchandise Sales/Petroleum Store	\$410	\$429	\$440	\$465	\$430	\$468	\$475	\$495	\$511	\$528
Ave. In-Store Transaction -Traditional	\$3.20	\$3.20	\$3.35	\$3.50	\$3.00	\$3.35	\$3.40	\$3.74	\$3.60	\$3.72
Ave. In-Store Transaction -Petroleum	\$2.40	\$2.50	\$2.55	\$2.85	\$2.80	\$3.15	\$3.15	\$2.79	\$3.09	\$3.11

Source: Convenience Store News, Convenience Store Industry Report, Selected Issues

VI. Cross Channel Retail Format Analysis

After discussing each of the major consumer retail channels individually, it is useful to look at certain factors, indicators, and trends across the major retail industries. This analysis provides an opportunity to more clearly see the similarities, differences and interactions occurring across retail sectors. As this study works to provide a foundation for identifying key trends emerging in store format, layout, merchandising, marketing, and strategic plans for retailers, an overview of the consumer retailing picture is needed to make educated projections.

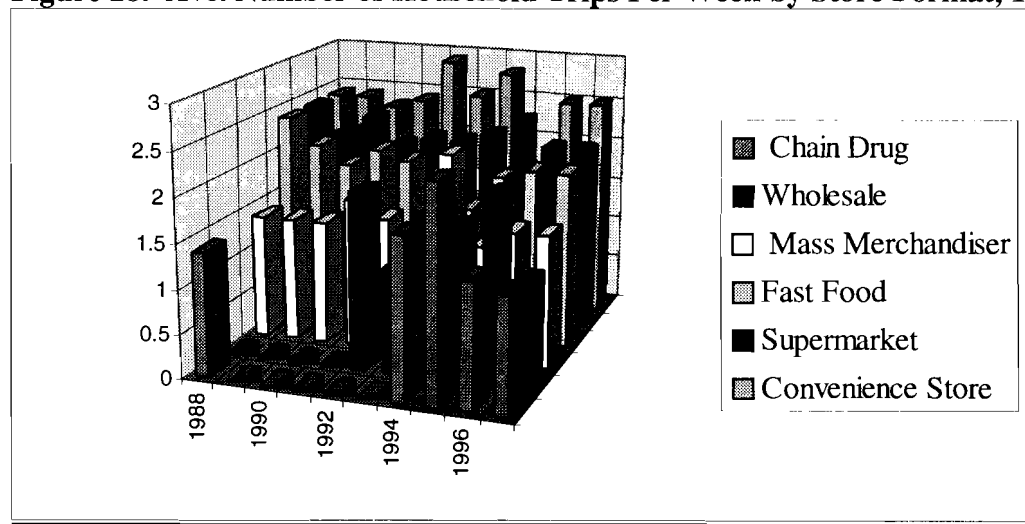
In this section, numeric data has first been synthesized concerning key structural factors for each of the four channels and placed in graphics together for easy comparison. Descriptive analysis of cross channel interaction has been touched upon numerous times in preceding sections. Deeper interaction analysis is beyond the scope of a secondary research study of this nature. More thorough interaction studies will be important to consumer retailers in the future, but can best be addressed following a primary data study. A more thorough probing of consumer marketing executives will expose the true areas of overlap we will see in consumer retailing in the future beyond the points we made in this foundation study.

A. A birds eye comparison of major channels

Supporting data for this section are contained in the summary statistics section. In **Part A** data included will summarize: **1.** average number of household trips per week by format, **2.** average weekly expenditures by household by format, **3.** percent of households shopping different formats, **4.** number of outlets by format, **5.** sales per industry, **6.** size of outlets by major format **7.** sales per square foot by major format, **8.** summary statistics for each of the numbers provided.

1. Average Number of Household Trips per Week by Store Format

Figure 28. Ave. Number of Household Trips Per Week by Store Format, 1988-1997.

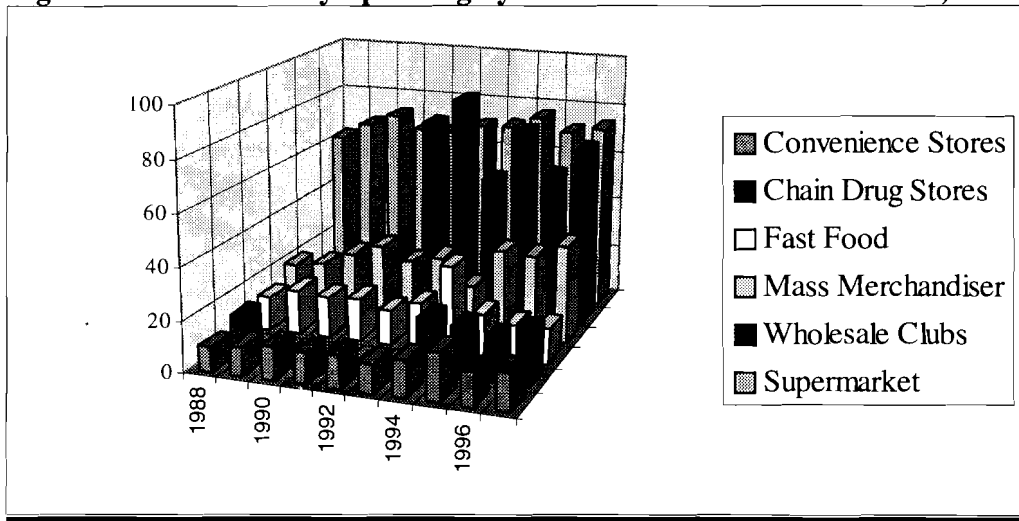


Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

Number of trips per week to various retailing outlets have remained somewhat steady in the past decade. If there is any general trend to be identified across all channels, it is that consumers are making slightly fewer stops to these outlets combined. This is no doubt a reflection of consumer trends away from shopping, as the shopping experience is cumbersome. As a result, all retailers need to find ways in which to attract new consumers, either through more convenient shopping or introduction of more category dominant products or destination categories.

2. Average Weekly Expenditures by Household in Various Formats

Figure 29. Ave. Weekly Spending by Household in Various Formats, 1988 to 1997.

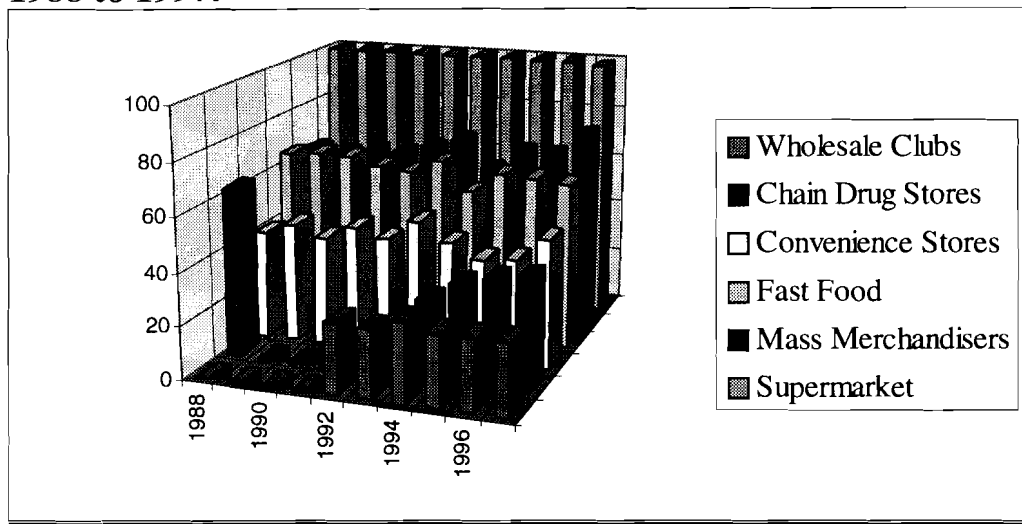


Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

Average weekly expenditures in retail outlets are somewhat more volatile than weekly trips, particularly in the case of wholesale clubs. Wholesale clubs did not even make the survey in the early 1990's but grew to near \$80/week in 1993, and have since slumped back to just over \$60. In comparison, mass merchandisers have seen a steady increase from the early 90's until today. Drug stores, with the exception of a superior 1995, have remained somewhat consistent as has the supermarket trade. Most channels weekly spending has varied mainly with inflation, not so much a dramatic shift in buying habits.

3. Percent of Households Shopping Different Retailing Formats

Figure 30. Percent of Household Shopping Different Retailing Formats, 1988 to 1997.



Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

For the first time in the recent history a number less than 100% of households are shopping supermarket formats. Granted 99% is an enviable percentage, but even 1% of households managing to bypass the supermarket experience entirely is reason for concern. Mass merchants have experienced a steady increase in shoppers the past five years, perhaps a result of more outlets and addition of food items in their product mix. Fast Food continues to get a high percentage of households and therefore a large percent of the consumer food dollar. Chain Drug Stores have made significant merchandise mix changes in terms of front-of-store merchandise that seems to be bringing in a larger number of households, while convenience stores seem to have stagnated with the same percentage for the past decade. While no single format is gaining or losing dramatically, it is clear that competition is high for the consumer dollar and all formats should remain on their toes to insure their location remains a vital destination for households for whatever reason.

4. Summary Statistics

Table 30. Number of Trips per Week by Household in Various Format Types, 1988 to 1997.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Chain Drug	1.4	-	-	-	-	-	1.8	2.4	1.4	1.3
Wholesale Club	-	-	-	-	2	1.2	1.8	1.7	2.1	1.2
Mass Merchandiser	1.4	1.4	1.4	1.7	1.5	1.4	2.3	1.3	1.5	1.5
Fast Food	2.4	2.1	1.9	2.1	2	1.9	1.5	1.9	2	2
Supermarket	2.4	2.1	2.3	2	2.1	2.1	2.2	2.4	2.1	2.1
C-Store	2.4	2.4	2.3	2.4	2.9	2.5	2.8	1.2	2.5	2.5

Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

Table 31. Average Household Expenditures per Week by Various Formats, 1988 to 1997.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
C-Stores	\$9.67	\$11.17	\$12.86	\$12.28	\$12.79	\$11.28	\$14.13	\$18.70	\$13.39	\$14.53
Chain Drug	\$13.59	-	-	-	-	-	\$21.41	\$19.72	\$17.08	\$20.74
Fast Food	\$13.49	\$17.48	\$16.17	\$16.98	\$13.49	\$17.72	\$33.76	\$16.32	\$13.57	\$14.02
Mass Merchandiser	\$19.40	\$21.12	\$26.25	\$30.52	\$25.64	\$28.50	\$18.06	\$33.53	\$33.13	\$38.29
Wholesale Club	-	-	-	-	\$75.99	\$86.30	\$54.84	\$75.12	\$58.49	\$70.05
Supermarket	\$61.51	\$67.96	\$72.65	\$67.72	\$68.04	\$71.04	\$71.17	\$75.82	\$71.24	\$73.40

Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

Table 32. Percent of Households Shopping Different Formats, 1988 to 1997.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Wholesale Club	-	-	-	-	27%	26%	30%	27%	27%	27%
Chain Drug	64%	-	-	-	-	-	30%	37%	40%	42%
C-Store	41%	45%	41%	46%	43%	51%	44%	39%	40%	49%
Fast Food	66%	67%	67%	64%	63%	68%	57%	65%	64%	63%
Mass Merchandisers	63%	62%	64%	64%	67%	71%	60%	68%	68%	77%
Supermarket	100%	100%	100%	100%	100%	100%	100%	100%	100%	99%

Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

Table 33. Total Sales by Format Type in Billions of Dollars, 1987 to 1996.

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Supermarkets	\$230.4	na	\$262.8	\$278.1	\$286.0	\$297.1	\$304.4	\$319.0	\$330.3	\$342.4
Discount Stores	\$74.6	na	\$81.1	\$88.1	\$95.0	\$106.2	\$122.0	\$146.1	\$162.0	\$172.0
Department Stores	\$68.2	na	\$70.4	\$71.3	\$71.2	\$72.9	\$77.0	\$82.3	\$86.1	\$93.5
Drug and Proprietary Store	\$52.8	na	\$61.0	\$66.5	\$74.0	\$77.9	\$80.9	\$83.0	\$85.7	\$93.9
Grocery Store	\$59.4	na	\$62.8	\$63.1	\$62.1	\$60.6	\$61.8	\$63.8	\$65.6	\$67.6
Wholesale Club	\$10.7	na	\$17.5	\$21.7	\$26.8	\$33.1	\$36.6	\$37.8	\$39.5	\$41.9

Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

While all channels shown in the above table have shown increases in household expenditures, mass merchandisers have shown the biggest leap, nearly 100% in 10 years, of all the channels. Other strong performers include convenience stores and chain drug stores. Certainly Supermarkets and Fast Food Outlets should be concerned that their sales are growing as dramatically; however, these are the two larger more well established channels that would be much more challenging to stimulate a dramatic percentage increase.

Table 34. Percentage Change in Average Household Expenditures by Various Retail Outlets, 1988 to 1997.

	1988 - 1997
Convenience Store	50.3%
Chain Drug Store	52.6%
Fast Food	3.9%
Mass Merchandising	97.4%
Wholesaler	?
Supermarket	19.3%

Source: Progressive Grocer, Annual Report of the Grocery Industry, Selected Issues

VII. Implications for the Future

This research study was completed in the spirit of being only a foundation for a future oriented research program to be conducted on an ongoing basis. This study provides a strong framework and structure in which to cast a more detailed perspective in the future with primary data collection.

Cornell University suggests conducting in-depth interviews with industry leaders, in all consumer retail channels, responsible for critical decision making regarding structural and strategic changes in store design. Moreover, these discussions should assist greatly with interpretations of secondary data in this and future reports. Last, a study of this nature will provide more opportunities for exposing interactions and overlapping effects in retailing as well as more definitive future oriented projections of the brick and mortar store formats of the future.

Food Industry Management Program

Available Publications

The following publications are available at \$25 each unless otherwise noted. Discounts are available on multiple copies of any individual report. Direct orders to: Cornell University, 113 Warren Hall, Ithaca, NY 14853-7801, or phone 607/255-1622 or fax 607/255-4776. Foreign orders should be payable in U.S. funds and drawn on a U.S. bank.

A Presentation Guide to the U.S. Food Industry, Geoffrey M. Green, Edward W. McLaughlin, Kristen Park, E.B. 98-05, May 1998.

FreshTrack 1997: Marketing and Performance Benchmarks for the Fresh Produce Industry, Edward W. McLaughlin, Kristen Park and Debra J. Perosio, R.B. 97-15, October 1997. (We can only sell this publication to other universities. Other companies should contact the Produce Marketing Association at 302-738-7100.)

FreshTrack 1997: The Fresh Produce Wholesaling System: Trends, Challenges, and Opportunities, Edward W. McLaughlin and Kristen Park, R.B. 97-16, December 1997. (We can only sell this publication to other universities. Other companies should contact the Produce Marketing Association at 302-738-7100.)

Retail Logistics & Merchandising, Requirements in the Year 2000, Edward W. McLaughlin, Debra J. Perosio and John L. Park, R.B. 97-08, May 1997.

Changing Patterns of Fruit and Vegetable Production in New York State, 1970-94, Kristen Park, Edward W. McLaughlin and Craig Kreider, E.B. 97-01, January 1997.

Supermarket Development in China, Gene A. German, Jane Wu and Ming Li Chia, E.B. 96-20, December 1996.

The Feasibility of a Mid-Hudson Valley Wholesale Fresh Produce Facility, A Buyer Assessment, Craig R. Kreider and Edward W. McLaughlin, R.B. 96-09, August 1996.

Dairy Department Procurement Dynamics, The Role of the Supermarket Buyer, Edward W. McLaughlin and Debra J. Perosio, R.B. 96-06, May 1996.

What's In Store for Home Shopping? Kristen Park, Debra Perosio, Gene A. German and Edward W. McLaughlin, E.B. 96-05, April 1996.

Supermarket Bakery Consumers, Attitudes, Preferences, Behaviors, Edward W. McLaughlin, Gerard Hawkes, Kristen Park and Debra Perosio, R.B. 95-01, February 1995.